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High-level jousting over WTO terms
Page 7

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Separate sections

World Business Newspaper http://www.FT.com WEDNESDAY NOVEMBER 20 1996

Glaxo may give malaria drug to developing world

World drugs giant Glaxo Wellcome is understood to be ready to give supplies of its new Malarone malaria medicine free to sufferers in developing countries. In trials, the blood of 98.5 per cent of malaria victims was cleared of the parasite. Further tests are under way to see if the drug can also prevent malaria, which kills between 2m and 3m people a year. Page 16

Boutros Ghali blocked: The US vetoed a second term for Boutros Boutros Ghali as UN secretary-general. The 14 other council members backed a resolution recommending his re-election. Page 4

London overtakes NY: New York has lost out to London as the leading market for credit derivatives, which enable banks to insure against bad loans. Page 16

Hijacker jailed: A German court jailed a Palestinian woman for 12 years for her part in hijacking a German jet to Somalia in 1977 and killing the pilot. The hijack ended when German commandos stormed the aircraft at Mogadishu, killing three hijackers. Page 2

Belgian deputy premier Elio di Rupo's alleged involvement in paedophile activities – strongly denied – is to be investigated by a Belgian parliamentary committee. Page 3

Euro Disney attracts 12m: The debt-ridden Paris-based theme park drew a record 11.7m visitors in the year to end-September and boosted net profits to FFr202m, ($39.8m) – the top end of market expectations. Page 17

France denies embargo breach: France denied supplying arms to the former Rwandan government after the murder of 1m Tutsis in 1994. Britain is probing arms trade controls in the light of the claims. Page 12; Rwanda's hard line on refugees, Page 4

Israelis hold suspects: Israeli security forces have detained 13 Palestinians in Hebron on the West Bank since Monday on suspicion of links with militant islamic group Jihad, Arab residents said.

China trade: China could join the World Trade Organisation in the coming year, WTO deputy director general Jesus Seade said. China hoped to join the WTO at its foundation in 1995, but the US and other countries insisted on economic reforms and greater market access. Christopher prepares, Page 7

Official quits in scandal: Japan's vice-minister of health and welfare, Nobuharu Okamitsu, quit after being accused of taking more than Y60m ($540,000) in cash and gifts in bribes. Page 6

General Motors is selling four unprofitable vehicle parts plants. The factories – two in Canada and two in the US – are to be bought by New York buy-out firm Joseph Littlejohn & Levy. Page 17

Peking duck: Washington D.C. mayor Marion Barry ended a six-day China visit with agreement to try to open one of Beijing's famous roast duck restaurants in the US capital.

Fidel Castro meets Pope John Paul:

Pope John Paul met Cuba's president Fidel Castro for the first time in an historic 35-minute private audience at the Vatican in Rome. The anti-communist head of the Roman Catholic Church accepted an invitation to visit the Caribbean island headed by the Jesuit-educated Marxist revolutionary. The Vatican raised the issue of curbs on Roman Catholics in Cuba, where the Church's activities are restricted. Page 5

FT.com: the FT web site provides online news, comment and analysis at http://www.FT.com

■ STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	6,371.88	(+24.97)
NASDAQ Composite	1,255.97	(+1.40)
Europe and Far East		
CAC40	2,240.05	(+11.24)
DAX	2,764.09	(+0.25)
FTSE 100	3,978.1	(+16.0)
Nikkei	20,956.18	(+159.81)

■ US LUNCHTIME RATES

Federal Funds	5¼%	
3-mth Treas Bills: Yld	5.145%	
Long Bond	100½	
Yield	6.431%	

■ OTHER RATES

UK: 3-mo Interbank	6⅜%	(same)
UK: 10 yr Gilt	100½	(99½)
France: 10 yr OAT	105.22	(105.04)
Germany: 10 yr Bund	103.21	(103.03)
Japan: 10 yr JGB	103.129	(103.204)

■ NORTH SEA OIL (Argus)

Brent Dated	$23.13	(22.755)

■ GOLD

New York: Comex		
(Dec)	$378.4	(n/a)
London:		
close	$378.5	(379.15)

■ DOLLAR

New York: lunchtime		
£	1.677	
DM	1.50425	
FFr	5.085	
SFr	1.27025	
Y	111.60	
London:		
£	1.6753	(1.6715)
DM	1.5028	(1.5017)
FFr	5.0828	(5.0760)
SFr	1.2681	(1.2689)
Y	111.36	(111.42)
Tokyo close:	Y 111.45	

■ STERLING

DM	2.5177	(2.5101)

Albania	Lek 275	Gibraltar	£0.75	Lithuania	Lts 18.00	Qatar	QR13.00
Austria	Sch37	Greece	Dr400	Lux	LFr75	S.Arabia	SR13
Bahrain	Din1.300	Hong Kong	HK$30	Malta	Lm0.70	Singapore	S$4.30
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75
Cyprus	C£1.30	Iceland	IKr260	Neth	Fl 4.75	S. Africa	R12.00
Czech Rp	Kc70	India	Rs75	Nigeria	Naira125	Spain	Pta250
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20
Egypt	E£5.00	Italy	L3300	Oman	OR1.75	Switz	SFr3.70
Estonia	EKr 28	Japan	Y500	Pakistan	Rs50	Syria	S£80.00
Finland	FM18.00	Jordan	JD1.75	Poland	Z16.00	Tunisia	Din2.000
France	FFr12.00	Kuwait	Fils.750	Portugal	Esc325	Turkey	L130,000
Germany	DM4.00	Lebanon	U$3.00			UAE	Dh13.00

Eurotunnel's financial problems likely to be increased by partial shutdown

Channel tunnel fire hits services

By Charles Batchelor, Andrew Taylor and George Parker in London

The Channel tunnel, Britain's busiest route to continental Europe, is expected to be severely restricted for several weeks after a ferocious blaze on a freight shuttle.

With revenue running at £1m a day, the partial shutdown of train services will increase the financial pressure on Eurotunnel, which last month negotiated the outlines of a £2bn ($3.3bn) restructuring with its lead bankers.

UK and French authorities have launched separate investigations into the cause of Monday night's fire, in which eight people were injured, two of them seriously.

Investigators from the French inspectorate of works, the Anglo-French Channel Tunnel Safety Authority and Eurotunnel itself are expected to examine the open lattice design of the freight shuttles, which allowed the fire to spread to several lorries, and to assess rescue procedures.

At Westminster, MPs raised their concerns about the design of the freight wagons and the performance of the ventilation system in the tunnel. Mrs Gwyneth Dunwoody, Labour MP for Crewe, said: "If it costs money to enclose the heavy goods vehicles into wagons which would have stopped the spread of toxic fumes, then it is something which should be undertaken immediately."

Eurotunnel hopes to restart services through the undamaged tube of the two-way tunnel later today, but capacity will be reduced to less than half in the run-up to Christmas by the need to adopt strict safety procedures for two-way working.

Eurotunnel's shares fell 3¼p to 88p yesterday as analysts assessed the likely long-term impact of the fire on revenues.

Ferry operators P&O and Stena, which are awaiting approval from competition authorities for a merger of their cross-Channel interests, saw their respective shares rise 9p to 606½p and SKr0.50 to SKr28.40.

Fire crews were yesterday continuing to damp down the burned out lorries, 30 hours after the blaze started at 9pm on Monday. About 600 yards of the tunnel was severely damaged, with cables and track left a molten mess, according to Eurotunnel. The heat was so great that fire crews from France and the UK could spend only 10 minutes at a time fighting the blaze before retiring to the safety of the parallel service tunnel.

The fire is thought to have started on a lorry carrying polystyrene, spreading thick clouds of acrid smoke through the tunnel. The 31 passengers and three train crew who fled the tunnel described how they had to lie on the floor of the lounge carriage, breathing through damp napkins.

Mr Jeff Waghorn, a 32-year-old lorry driver from Essex who works for Kennet International, said: "I wasn't sure we were going to get out. We were

Continued on Page 16
Eurotunnel survives its first big emergency, Page 10

Italy imposes Euro-tax in drive for Emu

By Robert Graham in Rome

The Italian government has introduced a one-year Euro-tax on incomes as part of its drive to be among the founding members of the planned single European currency.

The tax – planned to raise L5,500bn ($3.6bn) in 1997 – marks the first time a government has taken a fiscal measure specifically identified with the need to meet the criteria for joining Emu.

The tax is part of the second phase of the 1997 budget, in which Rome has set out to find L12,500bn in new taxes and savings, and a similar amount through Treasury operations, to bring the deficit down to the Maastricht target of 3 per cent of gross domestic product.

The rightwing opposition denounced the move and criticised the role played by the trade unions, which gave it a grudging go-ahead.

Mr Romano Prodi, prime minister of the centre-left government, tried to play down protests over the government's handling of this unpopular tax.

The Euro-tax will be like a withholding tax on income declared in 1996, and will begin to be repaid from 1999, partly as a tax rebate – in three tranches for larger sums – and partly in privatisation bonds. These will permit people to buy up to five times the value of what they paid, with a possible discount on shares in privatised companies.

Mr Prodi said it should be treated like a "dividend" – rewarding Italy's participation in monetary union. The unions' agreement was essential after threats over the weekend of a general strike unless the tax was weighted towards the wealthy and exceptions made for the needy.

After two days of talks, the unions have won concessions. The main rate of 1.5 per cent covers incomes up to L60m with allowances for families. It rises to 2.5 per cent on incomes up to L100m, and 3.5 per cent thereafter. Mr Prodi said those earning L30m would pay L150,000, those on L50m about L450,000 and those on L100m about L1.6m.

The government also said it would find L3,500bn via a tax on the funds companies set aside against redundancy payments. Businesses said this would further squeeze margins at a time of stagnant growth.

The government has added two further measures to find L3,500bn, which may not pass the scrutiny of Italy's EU partners. One concerns savings on renegotiating Italy's foreign debt, the other moves to speed up tax payments already budgeted for.

The Maastricht treaty should be interpreted strictly so that countries enfeebled by excessive budget deficits do not become founder members of Europe's economic and monetary union, Mr Alexandre Lamfalussy, president of the European Monetary Institute, said in a speech in Portugal yesterday. Report, Page 2

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Bill Clinton yesterday inspects the military honour guard on his arrival in Sydney on a four-day trip to Australia where he will have talks on trade and security. The US president will then visit the Philippines and Thailand. Picture: Reuter

French insurance chief refuses to quit

By David Buchan in Paris

Mr Jean-Jacques Bonnaud, chairman of the state-owned GAN insurance group, yesterday refused the French government's demand for his resignation.

In a rare display of stubbornness by a French state industry leader, Mr Bonnaud said that to do so would be "admitting to a fault which I do not feel I have committed".

The government asked him to leave on the grounds that he had helped undermine the planned privatisation of CIC, GAN's 93 per cent banking subsidiary. A first attempt to sell CIC was aborted last week. The government also intends to order his successor to replace Mr Bernard Yoncourt, the head of CIC.

Mr Bonnaud said yesterday that he had done nothing to sabotage the privatisation. But he admitted he had told the official privatisation committee that the bids for 67 per cent of CIC – apparently valuing the bank at little more than FFr10bn ($1.97bn), when it was valued on GAN's books at FFr14bn – would have posed problems by lowering GAN's solvency ratio.

Mr Alain Lamassoure, the budget minister, yesterday made clear the government's intention to install a new team at GAN and CIC. He told MPs: "Experience has shown that privatisation can only succeed with the full support and co-operation of managers of the groups concerned."

However, for technical reasons related to the lack of a cabinet meeting this week, the government may only be able to revoke Mr Bonnaud's mandate next week.

Mr Bonnaud won backing from unions at GAN and drew support from at least one analyst. Mr Derek Elias of Paribas Capital Markets claimed that given GAN's property problems, Mr Bonnaud had done "a good job" developing bancassurance with CIC and was "right to stick up for the best interests of GAN" over CIC's privatisation.

Mr Lamassoure told parliament he had asked regional members of the CIC banking group to come up with a fresh formula for selling off their

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$1.9bn loss for Sumitomo in wake of copper scandal

By Daniel Bögler in Tokyo

Sumitomo Corporation yesterday reported the first unconsolidated net loss in its 77-year history in the wake of its $2.6bn of losses accumulated by disgraced copper trader Mr Yasuo Hamanaka.

In spite of a robust operating performance in the six months to September, the copper scandal caused Sumitomo to record an unconsolidated net loss of Y213bn ($1.9bn).

Sales fell 13 per cent to Y6,275bn, although that reflected an accounting change that all the trading companies have adopted relating to dealings in precious metals.

The group's pre-tax profits jumped 78 per cent to more than Y33bn for the half-year, the best performance among Japan's big general traders.

Sumitomo produced strong growth of 26 per cent at the operating level, led by its fuels, chemicals and metals trading activities. It also cited the benefits of lower interest payments due to Japan's record low rates, and increased profits from investments.

In addition, to help offset the copper losses, Sumitomo created a total of Y43bn in extraordinary earnings by liquidating part of its fixed assets and securities portfolios. The sales included an 11,800sq/m plot in Tokyo's waterfront area, which netted a Y34bn profit.

Sumitomo also announced that an affiliate, Nippon Game Card, had incurred a Y2bn loss due to a flood of fake pre-paid pachinko cards. Nippon Game Card, along with Nippon Leisure Card-System – an associate of Sumitomo's leading rival, Mitsubishi – make the pre-paid cards for the popular pinball game, but illegally doctored cards have cost both companies sales and driven them into losses. Nippon Leisure Card-System has lost Y46bn to date.

For the full year, Sumitomo is forecasting turnover of Y12,500bn, down 13 per cent. At the net profit level, the group expects a Y150bn loss. Sumitomo predicted the loss from copper trading would not grow larger than the amount already announced and said it had the financial capacity to absorb it. The group expects to maintain its dividend at Y8 a share.

● On Monday, a Sumitomo shareholder handed in a petition at the company's Osaka headquarters threatening a damages suit for the equivalent of $2.6bn.

The shareholder, Mr Kazuyoshi Yuoka, president of a textile company, said he would seek a court order for current and former executives of Sumitomo over the past 10 years to pay for the damage done to the company through their mishandling of the Hamanaka scandal.

Economy holds back trading houses, Page 20

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NEWS: EUROPE

Lamfalussy warns loose interpretation of criteria will put Emu at risk

Emi chief takes hard Maastricht line

By Peter Norman in Bonn

The Maastricht treaty should be interpreted strictly so that countries enfeebled by excessive budget deficits do not become founder members of Europe's economic and monetary union, Mr Alexandre Lamfalussy, president of the European Monetary Institute (Emi), said yesterday.

In a speech delivered in Portugal and released by his office in Frankfurt, the head of the forerunner of the European central bank fired a shot across the bows of the so-called "Club Med" countries such as Italy which are busily positioning themselves to be among the first wave of Emu members on January 1, 1999.

Mr Lamfalussy stressed that the Emi would "stick to both the spirit and the letter of the treaty" when advising governments in early 1998 on which countries should launch Emu.

Although the treaty allowed deviations from the debt and deficit "reference values" – that the budget deficit must not exceed 3 per cent of gross domestic product, and that government debt must be no more than 60 per cent – these "should be granted sparingly by interpreting the words used by the treaty in a carefully restrictive way".

Pointing out that the treaty insisted that adherence to the criteria should be durable, he added that "compliance with the reference values should be regarded as sufficient for eligibility only if the deficit and debt ratios observed for 1997 are genuinely sustainable".

Mr Lamfalussy's remarks provided the first policy response from the Emi to its recent convergence report. This showed that a majority of European Union member states did not fulfil the necessary conditions for adopting a single currency.

Although the Emi president avoided naming countries, he left no doubt that he shared the concern of Germany that states such as Italy, which are seeking to meet the Maastricht criteria next year through one-off measures, could weaken the whole fabric of Emu.

"The initial choice of the countries will probably be the most important single factor in determining the degree of success of Emu during its crucial running in period," he said. "We must be aware that with such a unique enterprise, with no historical precedent, and operating in such an uncertain world environment, we will have to live with the possibility of things going wrong here or there, putting considerable strain on the strategy and technical capabilities of the ECB [the planned European central bank].

"Such strain could become unbearable or, to put it less dramatically, lead to a dangerously unbalanced policy mix, if it were compounded by the consequences of initially weak budgetary conditions in the member countries."

Mr Lamfalussy spelled out the risk of "a combination of high real long-term interest rates with a weak euro and an ECB compelled to fight for establishing its credibility in a hostile environment".

This was "the last thing Emu would need when it starts operating".

Nato-Russia accord 'by summer'

By Chrystia Freeland in Moscow and Bruce Clark in London

Nato should be able by next summer to sort out its relations with Russia and usher in a new European security system, Mr Volker Rühe, the German defence minister, said yesterday. His upbeat prediction coincided with an acknowledgement from General Igor Rodionov, the Russian defence minister, that Nato enlargement posed no threat to his country.

Mr Rühe said in London he detected a "new realism in Russia" which encouraged him to believe that formal talks between the alliance and Moscow could start early next year.

He was optimistic that by early summer, when a Nato summit was planned, the alliance would have agreed on internal reforms, settled a timetable for enlargement and established a new relationship with Russia.

In an interview, Mr Rühe also insisted strongly that Germany would retain conscription, even if this limited the range of conflicts in which it participated.

"The most important thing the German army can contribute to Nato is conscription – its reservists and its capacity to grow to 680,000 well-trained and well-equipped soldiers [in wartime]," he said.

Keeping a conscript army was the best way to maintain the US-German defence relationship and fulfil Germany's role as the guarantor of stability in central Europe.

"I believe that if Germany gave up conscription, gave up its 700,000 soldiers, we would lose the Americans," he said. "How can you argue that the US should keep 100,000 troops in Europe if a country of 80m in the heart of Europe can only field, say, 150,000 troops?"

Advocates of a greater German role in overseas peacekeeping have argued that a more professional army would suit better. But Mr Rühe made clear he regarded central Europe as the top priority.

He said Russian concerns about Nato enlargement could be assuaged through the establishment of a Nato-Russia committee as well as fresh negotiations on conventional forces in Europe. A committee grouping Nato's 16 members plus Russia could meet at the request of either side, and decide on matters of common interest such as peacekeeping in Bosnia.

Gen Rodionov, who yesterday met Mr Michael Portillo, the UK defence minister, was asked if his counterpart had convinced him Nato expansion did not endanger Russia.

"I am convinced. But now I have to convince millions of people, above all in Russia, and we have to work on this. Just as we have to convince the west that Russia does not pose a threat," Gen Rodionov said.

The Russian establishment still appears divided on the issue. A senior Russian diplomat, Mr Oleg Grinevsky, said yesterday: "Enlarging Nato will bring more reliance on the nuclear factor in Europe. This is a real danger for the US and Europe."

Nato expansion no threat, believes Russian defence minister Igor Rodionov (centre) *Reuter*

Madrid forced to rethink coal plan

By Tom Burns in Madrid

Spain's militant coalminers have forced Mr José María Aznar's centre-right government to rethink its plan to close the country's coal industry.

Earlier this month, the government announced that production would cease within 10 years because of increasing restrictions by the European Commission on subsidies to loss-making industries. Yesterday, Mr Josep Piqué, the industry minister, said he expected the more efficient pits would remain open.

The climbdown follows a wave of demonstrations, which have included barricades on national highways passing through mining areas.

Mr Piqué had proposed reducing subsidies to the coal industry as part of a liberalisation plan for the domestic power industry, lowering electricity charges and closing pits as generators turned to alternative sources of fuel. But this was viewed by Spain's 27,000 miners as a direct threat to their jobs, giving the Popular party (PP) its first taste of handling anti-government protests.

Yesterday, Mr Piqué, an independent, said he was prepared to negotiate continued aid with union leaders. He will be joined in talks with the unions today by Mr Francisco Alvárez Cascos, deputy prime minister and an MP for Asturias, the main mining region, and by PP politicians from areas where the loss-making industry is virtually the sole source of employment.

The talks will delay a protocol Mr Piqué had expected to sign with the electricity companies before the end of this month. In exchange for lower tariffs, it would have reduced from 31 per cent to 15 per cent the quota of domestic coal that Spain's power companies are obliged to use.

Domestic coal is as much as five times more expensive than imported coal and the cost of using it is passed on by the electricity groups to consumers who pay among the highest charges in Europe. Total subsidies to the domestic coal industry are estimated to be more than Pta200bn ($1.6bn) a year.

The policy switch is likely to heighten fears among Spain's business leaders that Mr Aznar's government is not prepared to risk its popularity by pursuing meaningful deregulation measures. "We will sign the protocol in the end but it will be less ambitious," an executive of one of the main electricity groups said yesterday. "There will be a compromise and we will all continue to share the coal burden."

History catches up with Belarus

The president's strong-arm tactics have aroused a previously apathetic public

Time might be catching up with sleepy, impoverished Belarus. The country, at the heart of central Europe, managed to avoid the political convulsions that brought down the Soviet system, but is now embroiled in a crisis over an attempt by its president to enhance his powers.

Events grew more tense yesterday when 75 MPs submitted to the country's highest court a motion to impeach President Alexander Lukashenko. Thousands of demonstrators have surrounded the parliament building where the MPs have been living since last week to forestall any move to dissolve the assembly.

As the tension has risen in Belarus, the outside world has become increasingly anxious about the prospect of instability or entrenched dictatorship in a nuclear-armed state.

Mr Lukashenko, a former farm boss who overwhelmingly won the 1994 presidential election, has already alarmed neighbouring states by seeking political union with Russia and clamping down on dissent at home. Defying parliament and the courts, he is now seeking to widen his already extensive executive powers in a controversial referendum on Sunday.

The opposition, uniting nationalists and Communists, received another boost this week when Mr Mikhail Chigir, the prime minister, together with the labour and deputy foreign ministers resigned and backed parliament. All had previously been loyal to the president.

"I will not give up the reins of power," Mr Lukashenko told a rally yesterday. "The people did not entrust me with them for me to give them up."

In Sunday's referendum, he is putting forward a new constitution which would give him control of the constitutional court and a new upper house of parliament, and extend his term in office another two years.

As democratic rule has shallow roots in Belarus and no charismatic opposition leader has emerged, the parliament has been blunted in its constitutional attempts at checking the president.

It first voted to annul the referendum, then decided that it should be "consultative". Both votes have been ignored, leading some MPs to retaliate by putting their own questions on the now confusing ballot form. One seeks to dispense with the presidency.

Ironically, Mr Lukashenko's strong-arm tactics and push for reunion with Russia have awakened a previously apathetic urban elite, the constituency that helped bring down governments elsewhere in the former Soviet bloc. There have been several clashes between demonstrators and police in the capital, Minsk.

"The president does not know how to lose, and that's why he'll break his neck one day," says Mr Vlachuk Viachorka, deputy chairman of the Belarus Popular Front, a small but vocal nationalist group.

Mr Lukashenko is not normally fond of compromise, though reports from Minsk last night suggested he was meeting the constitutional court president to discuss his constitutional claims.

The president's blanket control over the airwaves has kept his popularity levels high. The only independent voices heard on television in Belarus have been the Moscow channels, but the Interfax news agency reported that Russian television crews had been told yesterday that their despatches would be censored.

In theory, half of all the registered voters must support each question on Sunday for them to succeed. But past elections have not been free or fair, and some officials suggest Mr Lukashenko will not admit defeat easily.

Some diplomats worry the conflict could turn violent. Mr Lukashenko this week said parliament and the higher courts would be dissolved next week if his proposals passed. Other aides have suggested the president could act sooner.

Parliament, unlike the Russian duma in 1993, has no evident armed support. The president seems in control of the security services, although the loyalty of the interior ministry and the army have been questioned.

To the west, Belarus matters for its location. Pipelines and roads run through it connecting Russia with Europe. It has 18 of the SS-25 nuclear missiles stationed there in the Soviet era. Western strategists would prefer an independent, democratic state on Nato's likely new eastern frontier and believe it would assist change in neighbouring Ukraine.

Mr Lukashenko gives Russia leverage in the region, while his anti-western rhetoric "stiffens Russian opposition to Nato", says a western official.

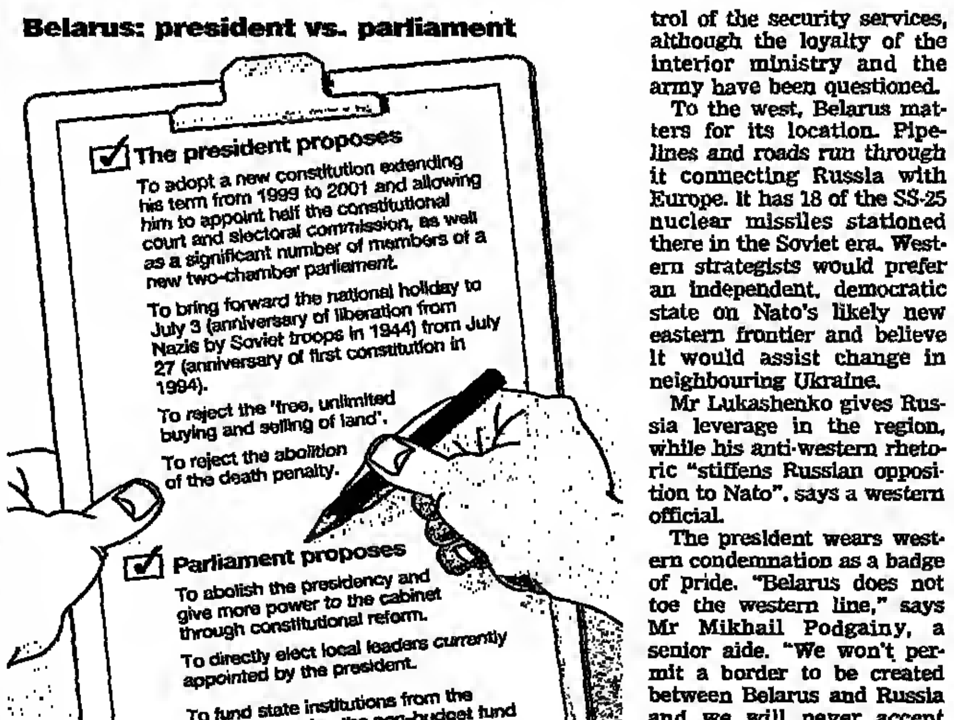
The president wears western condemnation as a badge of pride. "Belarus does not toe the western line," says Mr Mikhail Podgainy, a senior aide. "We won't permit a border to be created between Belarus and Russia and we will never accept Nato's eastward expansion."

But the Kremlin, a steadfast supporter of the president, yesterday gave a strong signal of its displeasure at the mounting political conflict. President Boris Yeltsin, who is recovering from heart surgery, and Mr Victor Chernomyrdin, his prime minister, yesterday expressed alarm about the growing tension in Belarus and called for compromise.

The fledgling democratic opposition hopes Mr Lukashenko might back down or even leave the stage, but Russian influence might be their last hope.

Matthew Kaminski
Chrystia Freeland

Belarus: president vs. parliament



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Volcker inquiry names audit firms

By Tracy Corrigan in New York

Three international accountancy firms, Arthur Andersen, KPMG Peat Marwick and Price Waterhouse, have been selected to search for dormant accounts and other assets deposited in Swiss banks by victims of the Jewish Holocaust.

Mr Paul Volcker, chairman of the committee overseeing the investigation, yesterday described the audit as "unprecedented" in its scale and intensity.

The investigation will be carried out in two phases. Initially, the auditors will gather data and conduct pilot audits of a sample of Swiss banks. A full-scale audit, based on the results of the first phase, is expected to start in about six months and to last for about a year.

To avoid any possible conflicts of interest, no firm will investigate a bank which is a regular client for auditing work.

Mr Volcker, a former Federal Reserve chairman, told journalists in New York yesterday the cost of the investigation, which is being borne by the Swiss Bankers Association, would probably be "some millions of dollars".

He said the precise cost was difficult to estimate because the accounting firms would follow their usual practice of charging by the hour. He added that final negotiations with the firms were still in progress, but he hoped they might charge a little below the norm for the Swiss market.

Mr Volcker said that he felt the Swiss authorities were keen to get to work. But he added: "We wouldn't have an investigation if we were were fully confident that [previous] investigations were adequate."

He warned that some estimates of the sums of money to be retrieved could prove excessive, cautioning that it would not be possible "after 50 years [to] identify every dormant account". But he said he hoped that at the end of the investigation it would be possible to say that "we now know all we can know".

The forensic accountants who will conduct the audit have a massive task ahead of them. They may have to investigate all 450 Swiss banks, and there are numerous complexities resulting from the time which has elapsed, such as mergers of banks, the move from paper to computer, and differences in accounting methods between banks.

Mr Volcker said the role of the committee was not to match up any money found with names, nor to come up with any settlement. He also emphasised that the remit was to investigate dormant accounts rather than looted money, although there is some overlap.

The scope of the investigation was agreed by the members of the Independent Committee of Eminent Persons, made up of representatives chosen by the Swiss banks and Jewish organisations and chaired by Mr Volcker. One of the members appointed by the Swiss Bankers Association, Dr Alain Hirsch, resigned yesterday, and was replaced by Prof René Rhinow, a lawyer and politician.

EUROPEAN NEWS DIGEST

Romania gets new premier

The centre-right victors in this month's Romanian elections yesterday nominated Mr Victor Ciorbea, mayor of Bucharest and a and former trade union leader, as prime minister.

Mr Ciorbea, a 42-year-old lawyer, is a protégé of Mr Emil Constantinescu, the Democratic Convention's leader, who was yesterday officially declared winner of Sunday's run-off for the presidency. Final results gave him 54.4 per cent of the vote, nearly nine points ahead of Mr Ion Iliescu, the former Communist who had ruled Romania since the overthrow of the regime of Nicolai Ceausescu in 1989. Turnout was very high at 77 per cent.

Mr Ciorbea was elected mayor in June ahead of Mr Ilie Nastase, the former tennis star, and has quickly established a reputation as a competent administrator. Like Mr Constantinescu, he is a former Communist who only recently joined the centre-right Peasants party, the Convention's mainstay.

The Convention, which also includes liberals, ecologists and civic groups was set up after Mr Ceausescu's overthrow as the main opposition to Mr Iliescu's party of ex-Communists. It won local elections in 1992 and this year defeated the ex-Communists at the national level for the first time in November 3's parliamentary election. It has since signed a coalition pact with Mr Petre Roman's pro-reform Social Democratic Union. *Virginia Morsh, Bucharest*

Palestinian hijacker sentenced

A German court sentenced a Palestinian woman to 12 years in jail on Tuesday for her part in the 1977 hijacking of a Lufthansa passenger jet to Somalia and the murder of its pilot. Ms Souhaila Andrawes, 43, is the only survivor of four Palestinians who hijacked the aircraft to back demands by German Red Army Faction guerrillas for the release of 11 of its members from jail.

Ms Andrawes had already been convicted in Somalia and sentenced to 20 years in jail, but was released after a year and went home to Beirut. She moved to Norway in 1991 and was extradited to Germany four years later.

She will be credited with almost four years she has already spent in custody and, after expressing regret for her actions, stands a chance of being released before her full term. Within hours of the ending of the hijack by West German commandos, three jailed members of the RAF committed suicide in their cells in Germany. One was Andreas Baader, founding member of the group. *Reuter, Hamburg*

Poland thinks again on Lot

Poland, which has been promising progress on privatising Lot, the national airline, since 1991 is to open a new tender for a privatisation adviser, Mr Boguslaw Liberadzki, the transport minister has said.

The previous tender ended in tears last summer when all six bids from investment banks such as Merrill Lynch, Kleinwort Benson and BZW, were turned down on the grounds that the government had failed to budget for the level of the fees quoted by the bidders.

Mr Liberadzki said that he would consider renewed offers from them but only if they kept their fees for the sale of up to 49 per cent of the airline at below $1m. Mr Liberadzki says the tender will be completed by the middle of next year when the sale of the equity can proceed. Lot is reporting a 10 per cent increase this year in passengers carried on its European and trans Atlantic routes.

The company, which owns 15 Boeing 737s and 767s, last month ordered two more 737s from Boeing and plans to purchase eight more by 2002. Last year the company reported a $2m net profit, while preliminary results for the first eight months of this year give a $15m net profit. *Christopher Bobinski, Warsaw*

EU says No to Saint-Gobain

Saint-Gobain, the French glass company, said yesterday that a decision by the European Commission to block the proposed merger of its silicon carbide operations with Wacker Chemie, the German chemical company, and Nom, the Dutch investment company, would not affect the group's overall shape.

The company said it was an interesting project "but not a strategic one". It was responding to reports that the competition authorities in Brussels intend to block the planned merger on the grounds that it would create a dominant position in the market for silicon carbide. The relatively rare step of blocking a merger would have to be approved by the full Commission. *Emma Tucker, Brussels*

Flatulent cows under fire

Flatulent sheep and cows and their decomposing manure account for 10m tonnes, or nearly half, of the EU's annual emissions of methane, a gas second only to carbon dioxide (CO_2) for its effect on global climate change.

The revelation is contained in a strategy paper adopted by the European Commission yesterday, which includes policy ideas to cut EU methane emissions by 41 per cent of 1990 levels by 2010. Under existing policies, emissions are supposed to drop by 14.3 per cent of 1990 levels during the same period.

United Nations climate scientists have said greenhouse gases from human actions have a discernible influence on global climate, although opinion is split on their exact effects. While livestock generates 44.7 per cent of the EU's methane emissions, according to 1990 figures, waste accounts for 31.5 per cent, with a further 23 per cent coming from energy-related activities such as coal mining and gas production and distribution. *Reuter, Brussels*

Croatia may sell telecoms

Croatia may sell up to 25 per cent of the state telecom monopoly HPT to private investors to raise up to $1bn to rebuild the Danube town of Vukovar, almost totally destroyed in the war with the Serbs.

Mr Ivan Penic, privatisation minister, declined to provide a precise timetable but said a high-level political decision had been made to go ahead with privatising parts of larger state-owned enterprises and utilities, including the postal service and the telecommunications sector. *Reuter, Zagreb*

ECONOMIC WATCH

German vehicle output up

German vehicle output in October totalled 430,100 units, up 13 per cent from a year earlier, the VDA motor industry association said. Car production in the month climbed 12 per cent to 402,500 units, while commercial vehicle output rose 23 per cent to 27,600 units. The sharp rise in the latter was largely due to the extremely low level of production of trucks of up to six tonnes in the same month a year ago, the association said.

New car registrations in the month rose by 7 per cent from a year earlier to a provisional 286,000 units but was slightly lower than in September in seasonally adjusted terms. *AFX, Frankfurt*

■ Registered unemployment in the Netherlands fell to a seasonally unadjusted 438,000, or 6.6 per cent of the workforce, in the three months to October, the central statistics bureau said. This compares with 450,000, or 6.8 per cent, a year earlier.

■ Switzerland's seasonally adjusted trade surplus widened to SFr271m ($212m) in October, against a revised SFr218m in September, the federal customs office said.

BUDGET FOR 1997

Greece acts to keep on Emu track

By Kerin Hope in Athens

Greece's economy minister, Mr Yannos Papantoniou, yesterday outlined 1997 budget proposals intended to keep the country's Maastricht convergence programme on track, as well as providing for higher wages and increased social spending.

Mr Papantoniou said the general budget deficit would fall next year from 7.6 per cent to 4.2 per cent of gross domestic product. This would open the way for Greece to achieve the European monetary union criterion – of budget deficits not exceeding 3 per cent of GDP – in 1998, one year later than its partners, he said.

He forecast that inflation would slow to 4.5 per cent in 1997 from about 8 per cent this year.

The budget announcements followed angry debate in the governing Panhellenic Socialist Movement over the introdnction of new taxes and tighter controls on public spending.

Hard-line socialists object to proposed structural reforms, which include a freeze on public-sector hiring and budget capping for all state-controlled organisations.

The budget will be presented to parliament at the end of this month and is due to be approved before Christmas.

Analysts said the inflation and deficit targets would be hard to reach, given that public sector wages are set to rise 8 per cent next year and government expenditure by 6.2 per cent.

Mr Papantoniou said the proposed cut in the budget deficit would be achieved through a projected revenue increase of 15.6 per cent and "by curbing waste in the public sector through better management of resources".

Part of the projected revenue increase will come from higher growth, estimated at 3.3 per cent of GDP against 2.6 per cent this year, but the government has been forced to abandon promises that no new taxes would be introduced.

New tax on interest from government bonds hits capital markets

Mr Papantoniou stressed that new taxes on property and a move to abolish more than 250 categories of allowances for taxpayers were directed at high income-earners.

But the decision to tax interest on government bonds and interbank deposits caused turmoil yesterday on Greece's capital markets.

Mr Papantoniou announced that from January interest on bonds would be taxed at 7.5 per cent, half the rate for income on savings deposits, but refused to give details of the new tax on banks.

One banker said: "Greek banks are already discriminated against by special taxes on their activities, and this move implies they are being squeezed as an easy target for adding to government revenue."

Belgian deputy premier faces inquiry by MPs

By Neil Buckley in Brussels

Elio di Rupo answers journalists' questions in Brussels yesterday Reuter

The Belgian parliament yesterday set up a special committee of inquiry into allegations that Mr Elio di Rupo, deputy prime minister, had been involved in paedophile activities.

The 11-member committee must decide whether there is a case to answer concerning the Francophone Socialist minister, after being presented with a dossier yesterday by the Brussels public prosecutor.

If so, it can recommend parliamant lifts Mr di Rupo's ministerial immunity from prosecution and sends him for trial by Belgium'e supreme court.

Mr di Rupo continued to insist yesterday on his innocence of the allegations against him, which first surfaced in newspapers in Flanders, Belgium'e Dutch-speaking region, at the weekend. He said he was the victim of a "new McCarthyism" and the inquiry would clear his name.

"I repeat yet again that I have never been involved, in any way, in paedophilia," Mr di Rupo told Belgian television. "What is happening to me is political machination."

Belgium is still in shock after the arrest in August of Mr Marc Dutroux in connection with the abuse and killing of four girls.

This was followed by further arrests of an alleged paedophile ring, and mishandling of the case by the police and judicial authorities.

Although there is no suggestion of a link between the Dutroux case and the allegations against Mr di Rupo, the latest inquiry comes at a time when public feeling over the problem of paedophilia is running high, and many Belgians have lost faith in their legal and political system.

More than 300,000 Belgians marched through Brussels last month to protest over mishandling of the Dutroux affair, and to call for constitutional reforms.

If the parliamentary committee recommended Mr di Rupo should stand trial, Belgian MPs suggested yesterday he would be forced to resign. That could threaten the survival of the finely balanced four-party coalition government headed by Mr Jean-Luc Dehaene.

The regional parliament of Wallonia, Belgium's French-speaking half, also set up a committee to investigate similar charges against Mr Jean-Pierre Grafé, regional higher education minister. Mr Grafé denies the charges.

Cash run on Bulgaria bank

Thousands of Bulgarians besieged branches of the State Savings Bank yesterday, fearing they will loss their savings, AP reports from Sofia. The panic followed an official's announcement last Friday that the bank had used depositors' savings to finance the government's gigantic debts, and a warning that the bank might not be able to return the money.

Customers lined up for a second day yesterday outside the bank's branches. The bank was paying a maximum of 200,000 lev ($738) per person. People were exchanging the cash on the spot for US dollars or German marks. On Monday, depositors collected some 4bn lev in total, bank officials said.

The run on the bank was the latest sign of crisis in the Bulgarian economy. The lev is falling fast against the dollar, and consumer inflation is running at close to 200 per cent annually.

The International Monetary Fund has advised establishment of a curreocy board as a last-ditch effort to curb public financing of insolvent banks and state companies, which has sent the national currency into a tailspin.

State Savings Bank's governor Ms Bistra Dimitrova has warned parliament that under a currency board, her bank would be unable to repay people's deposits if the government failed to repay its loan in good time.

Aggregate foreign and domestic debt amounts to $12.3bn – outstripping the country's gross domestic product by one-fourth. Its foreign currency reserves have fallen to $540m.

Ms Dimitrova said 70 per cent of the bank portfolio was in treasury bills it received from the government in return for the loans. She also said the State Savings Bank held 17 per cent of its portfolio in commercial banks, half of which are under bankruptcy proceedings.

Socialist premier Zhan Videnov has warned that hyperinflation and default on foreign debt are imminent if the currency board is not introduced. The IMF is linking the currency board implementation to resumption of lending to Bulgaria.

Sour grapes over Swedish alcohol laws

State retail monopoly is being challenged in European court

By Greg McIvor in Stockholm

Swedish grocer Harry Franzen: unhappy with tough Swedish alcohol rules

The European Court yesterday began hearing evidence in a case which, if successful, would deliver a mortal blow to Sweden's state retail alcohol monopoly, Systembolaget.

Mr Harry Franzen, a Swedish grocer, is claiming that Systembolaget's sole right to sell all drinks stronger than light beer contravenes European law by obstructing the free flow of goods inside the European Union.

The case was referred to the court in Luxembourg by a Swedish district court following Mr Franzen's prosecution for selling wine. The alleged offence occurred on January 1, 1995 – the day Sweden joined the EU.

Mr Franzen became a national celebrity after inviting the media to record the event.

Should the Swedieh authorities lose, it will have profound repercussions not just for Systembolaget but for Alko, the Finnish state retail monopoly. Both were granted exemptions from anti-monopoly rules when the countries joined the EU but would face closure in the face of a contrary ruling by the European Court.

Mr Franzen's lawyers contend that Systembolaget, as a monopoly, is contrary to the Treaty of Rome and discriminates against producers and suppliers.

His legal costs are being paid by the Swedisb Food Retail Association, representing supermarket and grocery chains. It claims the alcohol monopoly distorts local shopping patterns by benefiting larger towns, where Systembolaget outlets are usually located.

The Swedish government is being backed by Finland and Norway. An adverse ruling would affect Norway's alcohol monopoly through its membership of the European Economic Area.

The trio are relying for support on the European Commission, which has previously ruled that Systemboleget is non-discriminatory and fully complies with competition laws.

They are likely to argue that abolition of the state monopolies would lead to serious health problems in countries with historically high liquor consumption.

Systembolaget, which aims to limit alcohol consumption by reducing availability, is strongly supported by Sweden's main political parties on health and social grounds.

Stockholm's determination to maintain the *status quo* was clear in a recent threat to take the Commission to the European Court over its proposal to phase out the Nordic countries' restrictions on personal alcohol allowances for travellers.

But opinion polls suggest around 60 per cent of Swedes would like to buy alcohol more freely.

Mr Franzen suggested pro-European sentiment in the EU's most eurosceptic member state would rise 10 per cent if he won his case. The court's judgment is expected in February.

Sweden survey: Separate section

INTERNATIONAL NEWS DIGEST

US vetoes Boutros Ghali

The US yesterday carried out its threat to veto the reappointment of Mr Boutros Boutros Ghali as secretary-general of the United Nations, precipitating a leadership crisis that may take weeks to resolve.

Ms Madeleine Albright, the US delegate, cast the only negative vote. The ballot was conducted in secret, but Mr James Rubin, her spokesman, confirmed the veto, telling reporters: "The event occurred and there were no surprises."

Delegates said Britain, France, China and Russia, the other permanent members with veto power, voted with the 10 elected states to nominate Mr Boutros Ghali for re-election by the General Assembly.

Ms Sylvana Foa, his spokeswoman who has been an outspoken defender, went on to criticise what she said was "obviously not a democratic process". A vote of 14-1 would be "rather conclusive" in any democracy, she noted.

The US has said it is prepared to consider another African, but Mr Boutros Ghali must step down at the end of the year because he has lost the confidence of the Clinton administration and Congress.

Theoretically the General Assembly could invoke a manoeuvre tried when the first secretary-general, Norway's Trygve Lie, was vetoed by the Soviet Union – reappointing Mr Boutros Ghali without the formality of a Security Council nomination. But this would be highly irregular. Moreover, diplomats said, it would be a recipe for disaster. Congress then would probably refuse to pay US arrears totalling about $1bn and the administration's support for the UN could well evaporate.

Following yesterday's veto, Security Council members went into further private consultations on how to tackle the crisis.

They said the selection of a successor to lead the UN into the 21st century, taking office on January 1, was likely to become a lengthy and possibly bitter exercise.

Michael Littlejohns, New York

Africa investment fund set up

The first investment fund to give Africans an opportunity to invest in their own economy is being launched in the UK this week.

Regent Pacific, the aggressive Hong Kong-based fund management group, has created a $50m fund that will, after its primary listing in Ireland, have secondary listings in Kenya and Botswana.

It is being launched with the help of Standard Bank which has an established presence in the continent. Mr Jan Perry, Standard's emerging markets manager, said: "The fund will be the first foreign registered company listed in Kenya and Botswana and the first to give investors there exposure to other African markets."

Peter John, London

CORRECTION

Israeli broadcasting

An FT report on November 7 said that the Israeli Broadcasting Authority was state run. The authority is a public services institution which has an independent board. No politician, including the prime minister, has the authority to approve or cancel programmes.

Yuri Milov, a deputy head of the Russian Space Agency, laments failure of its Mars mission at a recent conference AP

The cost would be less than half that of the original

Scientists may resurrect failed Cluster mission

By Clive Cookson, Science Editor

European scientists meet in Paris next week to decide whether to resurrect the £430m ($718m) Cluster space mission, which was lost when the Ariane 5 launcher exploded on its maiden flight in June.

The European Space Agency's science programme committee will consider whether to go ahead with an exact duplicate of the original mission: to send a small flotilla of four identical spacecraft to study the interaction of the "solar wind" with the earth.

ESA estimates that Cluster II, as it would be called, would cost £185m – less than half as much as the original version – because all the expensive design and development work has already been done.

"The industrial and scientific teams are still in place," a group of UK space scientists, who provided three of the 11 Cluster instruments, told a conference in London yesterday. "Unless the recovery programme is initiated now, the teams will disperse and the opportunity to achieve a world class scientific first from the investment already made will be lost."

> 'Unless the programme is initiated now, the teams will disperse'

The Cluster craft would orbit the earth in a tetrahedral formation, providing the first three-dimensional observations of the solar wind. Electrically charged particles, streaming away from the sun at 2m miles per hour, have a profound effect on the earth, its atmosphere and its magnetic field. Their effects range from the aurora borealis (northern lights) to magnetic storms that disrupt radio communications.

Yesterday's meeting was overshadowed by the loss of another unmanned space mission. Russia's $300m Mars 96, which crashed into the Pacific Ocean on Monday carrying several instruments from west European researchers.

But Professor David Southwood of Imperial College, London, denied that this would make European politicians less likely to fund space science in general – and Cluster II in particular.

"Politicians know that we have to stay in the space game, for both scientific and industrial reasons," he said. "A hiccup in the Russian programme makes it more important that Europe secures its own space activities."

In the immediate aftermath of the Ariane 5 disaster – caused by a computer fault – scientists who had lost up to 10 years' work assumed that it would be impossible to find new funds for the project.

Scientific missions are not normally insured.

But ESA quickly said it would pay for a single Cluster craft, called Phoenix, to be built from spare parts left over from the first mission, so as to keep the teams together, and would support studies on the cost of rebuilding three more craft to repeat the whole thing.

If Cluster II is approved, the four craft will be launched in 2000. Whether they are entrusted again to Ariane 5 is a moot point.

Rwanda's hard line over refugees adds to west's indecision on military intervention

By Michela Wrong in Kigali, George Parker in London and Gerard Baker in Washington

The plan to send a 10,000-strong multinational force to east Zaire came under strong attack yesterday from the Rwandan government amid continued confusion about its role within the ranks of contributing countries.

The US and Britain both substantially reduced their commitment yesterday, but even a reduced international intervention faces severe difficulties.

Mr Anastase Gasana, the Rwandan foreign minister, insisted that the vast majority of Hutu refugees in the region had returned and refused point blank to co-operate with an incoming force.

Challenging claims by the UN High Commissioner for Refugees (UNHCR) that probably less than half the exiled refugee population was involved in a weekend influx from north Kivu, the minister said Kigali was convinced most were now on Rwandan soil.

"The refugees have returned, you saw them come back, so the mission is no longer necessary. That is our message to the international community," he told journalists.

"The whole mission has become null and void," he said, adding that Kigali wanted the UN secretary-general to recommend its cancellation. Funds pledged for the force should be reallocated to help refugees settle.

Mr Gasana made it clear that if the nations who had planned to contribute to the Canadian-led force decided to authorise an intervention, Rwanda would regard it as a hostile act and would not allow them to use its airport, a key transit point for any incoming troops.

Coming just two days before contributor countries were due to meet in Stuttgart to review military intervention, Rwanda's blunt rejection is a serious setback to what diplomats acknowledge has been a badly co-ordinated initiative.

Since last weekend's exodus from Goma, several western and African nations have expressed strong reservations over the force and sharply conflicting signals emanating from key parties over its usefulness and precise role.

British defence chiefs yesterday appeared increasingly cautious about committing troops to the region, after a 20-strong military reconnaissance team reported there was a need to reassess the situation.

"This is clearly not the time to rush in – we should keep our powder dry," said one senior defence source.

The military team, which returned to Britain yesterday, was unable to examine camps around Bukavu in eastern Zaire – the area where at least 1,000 UK troops were likely to be posted. Britain is expected to send a spy aircraft to photograph the area today.

Mr William Perry, US defence secretary, yesterday said the return of refugees over the weekend was a "very positive development" which had forced a change of plan.

The US would not now send any combat troops to help relief efforts, and would instead send less than 1,000 troops in supporting and logistical roles. Last week officials had said the US presence would number about 1,000 combat troops, backed by over 3,000 auxiliary soldiers.

Mr Jacques Chirac, the French president and intervention's most enthusiastic advocate, insisted in Tokyo yesterday that it should go ahead to secure east Zaire's airfields and protect food convoys.

But in Kinshasa, Mr Aldo Ajello, the European Union envoy, fuelled regional suspicions of a hidden plan to shore up Zairean President Mobutu Sese Seko by saying the priority was to enable Kinshasa to "recover total sovereignty".

Mr Gasana told journalists that Major Paul Kagame, Rwanda's military strongman, had spelled out his country's position to Gen. Maurice Barril, Canadian commander of the planned force, before he left Kigali yesterday following a one-day reconnaissance mission.

The Rwanda government's interpretation of last weekend's mass exodus from north Kivu clashes directly with the version presented by the UN and humanitarian organisations, which have always estimated the number of refugees in the region at over 1m.

They say the estimated 500,000 refugees who poured across the border are a fraction of the refugee population, and while the problem in the north appears solved, an intervention is still desperately needed in the south.

Rwanda's antagonistic stance, apparently prompted by the international community's refusal to tackle the key issue of disarming the hardliners who once controlled the refugee camps, means any incoming force would probably have to base its operations in Zaire itself.

If it attempted to fly into the regional capitals of Bukavu or Goma, in rebel control, it could well encounter fierce resistance from a guerrilla movement that takes it lead from Kigali.

Obscure text masks South Africa's gaping dilemma

Roger Matthews on how President Mandela's ANC is trying to reconcile its ideological past with today's global reality

"The democratic movement and the state must never entertain the notion of voluntarism with regard to economic questions, according to which the concept takes hold that the subjective can assume ascendancy and preponderance over the objective, in violation of the laws of motion governing the objective sphere."

The meaning may not be immediately obvious, but the quotation provides some flavour of a document that should be required reading for anyone seeking to predict the value of the South African rand next year, and the performance of the economy over a rather longer period.

"The State and Social Transformation", a discussion paper on economic policy being circulated to the national executive of the ruling African National Congress, sets the scene for a critical stage in South Africa's most important debate.

Parts of the document may be inaccessible to those without a Marxist background, but it also provides lessons for others who have progressed no further. "Private owners are driven by the requirement continuously to reproduce and increase the volume of capital in their hands," it asserts. "They do this through the generation of profit which is a fundamental condition for the existence of capital."

Better than any recent ANC document, or ministerial speech, it reveals the anguish within the alliance over the extent to which socialist ideals can resist the realities of the global market. In particular it offers insights to the tough decisions facing Mr Trevor Manuel, the finance minister, in drawing up the budget to be presented in March.

Mr Manuel has staked his reputation on introducing a budget that will cut the fiscal deficit from this year's target of 5.1 per cent of gross domestic product to 4 per cent. The target is one of several intermediate steps aimed at achieving an overall growth rate of 6 per cent by 2000 and the creation of 400,000 jobs a year.

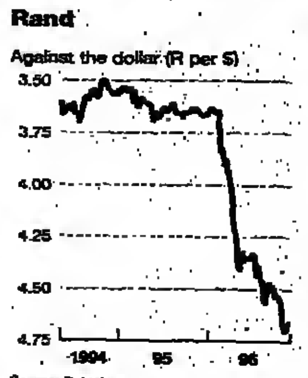
The ANC has no problems with the goals. It is how to get there which creates the tensions within the organisation. The unions, the ANC's most important ally, have dismissed the government's policies as a recipe for disaster. And those divisions were understood by a sceptical outside world, in part reflected by the nearly 30 per cent depreciation of the rand against the dollar this year.

The document's ideologically diverse authors, under the guidance of Mr Thabo Mbeki, the deputy president, are chronological in their approach, thereby seeking an initial unanimity. Apartheid "infected the white population with pernicious ideas of racial superiority", it provided unproductive jobs for the (white) boys, it distorted the budget, and led to a sustained fall in capital expenditure, greater recurrent expenditure, and a huge increase in total government debt.

At which point the language becomes simple, clear, and presumably drafted by those opposed to what the document describes as the "ultra left". The cost of servicing debt means fewer schools, houses and clinics. It could also mean increases in interest rates and inflation "which impacts most negatively on the poorest". And, returning the unions' invective, the authors declare that "to borrow to finance consumption expenditure is, in the end, a recipe for disaster".

So where to cut, without alienating those who view the public service as a tool of black advancement, or by succumbing to "the liberal concept of less government,

Rand



Source: Datastream

which is aimed specifically at weakening the democratic state"? The answer is apartheid, or what parts of its machinery remain. In particular the document points to the "additional layer of the state administration put in place to buy more allies for the apartheid regime". Whoever they are, March is unlikely to be a pleasant month.

Nor will it be for those demanding the government must spend a lot more on fighting crime. Calls for "more police, less crime" come from people "who have not understood the central importance of the creation of a new state", says the document. The point is that once the government's plans for better police training and more community involvement are implemented, this will mean fewer officers are needed and less state spending.

But the real crunch for ANC members is the extent to which their new-found freedom is compromised by the disciplines of the global economy. The document rejects "the false view of a world dominated by the impact of the free market, which serves as a means to expand the predator space of the most powerful sections of capital".

However, it accepts "that the subjective intervention in social development must take into account the reality that the possibility to intervene successfully is determined by the extent to which there is appreciation of the regularities which govern social behaviour".

The compromise reached by the authors is that "the destabilising theoretical and practical reality, and the enemy of dogmatic certainty, is that social transformers are neither slaves nor free agents. They are both slaves and free agents".

And as slaves, the document concludes, they have to understand the impact of taxation, public spending, budget deficits, monetary policy and exchange rates. More than that, they must resist the conclusion that South Africa can insulate itself internationally, or be sustained by "a world of anti-apartheid campaigners".

If that argument carries the day, the prospects of Mr Manuel hitting his budget target, and securing a more stable rand, should look considerably brighter.

Venezuela seeks to benefit from reform of social security system

By Raymond Colitt in Caracas

A second week of talks began yesterday between the government, labour and employers to reform Venezuela's moribund social security system and its unwieldy worker benefits.

"We've agreed on an agenda in general terms and I think the talks are pointing in the right direction," said Mr Aurelio Concheso, vice-president of Fedecamaras, the commercial and industrial federation.

"These talks could be a sign that the government is taking long overdue action. The situation has been harming business and labour alike," says Mr Rolando Diaz, a labour expert at the Latin American Research Institute (ILDIS) in Caracas.

However, optimism among participants at the talks was marred yesterday as union leaders claimed that some 1.3m civil servants began a 48-hour strike to demand overdue wage bonuses.

Venezuelan workers have seen their real income drop to its 1968 level but are still clinging on to a list of benefits introduced during the oil boom, ranging from the right to cold drinking water on the job to a pay bonus on termineting employment. According to government estimates, worker benefits are virtually double the cost of salaries.

Most of these compensations are retroactively edjusted to a worker'e base or take-home pay, meaning inflation-driven salary adjustments would send a company's total personnel costs sky-rocketing. As a result, the government in recent years has practically frozen salaries, while increasing bonuses. The minimum monthly income is currently the equivalent of $112, of which only a third is take-home pay.

"It's been an ideological battle that has led us to these distortions," says Mr César Olarte, former head of the CTV, the country's lebour union federation, "and nobody has had the courage to tackle this delicate balance of powers."

He says workers have been unwilling to give ground on benefits, especially aeverance pay, because these are seen as providing a type of social security insurance in light of inadequate pension and health funds. For many, he says, receiving a pay bonus after 20 years of employment is the only way to save any money.

An apparent breakthrough came earlier this month when President Rafael Caldera (who during his first presidency from 1969 to 1973 introduced much of today's labour code) gave in to CTV demands of linking any reform of worker benefits to an overhaul of the country's social security system.

"Now the conditions of reaching at least a working agreement are good," says Mr Jose Antonio Gil, pollster and political analyst. But he warns that putting the entire system on the table for discussion could turn into a Pandora'a box for the government.

Other observers say pension plans will be the focus of talks on social security reform. They say Mr Caldera's assurance to salvage the deficient state Social Security Institute (IVSS) has made the CTV more receptive to industry and government proposals introducing private pension funds as an alternative.

Some say the CTV has even begun to see potential benefits in such funds. "After talking to Chilean unions, which do quite well running their own funds, they actually appear keen on the idea," says Mr Diaz.

This is the ninth ettempt in recent years to unravel the country's tangled web of social security and labour policies, spun by each consecutive government.

Dream of port kickstarts Bolivian soyabean boom

In the tropical heat, nightclubs throb until dawn with Brazilian rhythms. Canadians, Mexicans and Paraguayans belonging to the Mennonite Christian sect – their wives in ankle-length skirts and broad-brimmed hats – drive around sedately in pony-traps. Japanese farmers steer their tractors over huge flat fields. In town, Indian women tend traditional market stalls.

This cosmopolitan and permanently bustling place is Santa Cruz, Bolivia's fastest-growing region.

The departmental capital, also called Santa Cruz, is now larger than La Paz itself – if La Paz's satellite city of El Alto is excluded. It has expanded from the small frontier town of 100,000 inhabitants 30 years ago to 850,000 today. "It's the engine that's driving Bolivia's economy today," says Mr Luis Fernando Terrazas, president of the local chamber of industry and commerce, Cainco.

Santa Cruz hopes to put its name more visibly on the map next month when it hosts up to 34 presidents from the two Americas in an environmental summit.

Over the past three decades, the population of Santa Cruz department has grown at an average 7 per cent a year to around 1.5m. Although they represent only 22.5 per cent of Bolivia's inhabitants, *cruceños* last year produced 31.9 per cent of the country's GDP; their average annual income is $1,230, 30 per cent above the national average.

The department exported $256.77m last year, more than double the 1993 figure and almost 55 per cent of all Bolivia's non-traditional exports. Cainco says the department accounts for 31.4 per cent of deposits in the Bolivian banking system, 43 per cent of loans and 40 per cent of national investment.

It is all primarily down to one thing: a boom in the soya crop. Encouraged by a 1986 World Bank document identifying the eastern Bolivian lowlands as prime agricultural land for soybean cultivation, native Bolivians and immigrant farmers looking for cheap, fertile lands flocked in, clearing the semi-tropical undergrowth and pushing steadily eastwards towards the Brazilian border.

By last year, there were close to 340,000 hectares under soya, with the main summer crop producing 754,000 tonnes, three times 1992 output. Soya and its derivatives accounted for almost half of Santa Cruz's 1995 exports.

Around a third of the potentially rich 2m hectares have so far been cleared for agriculture. Uncleared land fetches $200 per hectare today, up from $40 five years ago, but still unbelievably cheap for Brazilians, who now produce 40 per cent of the soya crop.

Much of the credit for kickstarting today's soya-based economic activity goes to a Bolivian who, in 1989, saw his ambition of half a century materialise: a port on the edge of the Paraguay-Parana river, now an international waterway known as the "Hidrovia".

As long ago as the 1930s the young Joaquin Aguirre – like many of his countrymen – felt "the anguish of Bolivia's landlocked condition" and dreamed of turning the Paraguay-Parana river into a South American Mississippi-Missouri.

Disillusioned by lack of state backing, Mr Aguirre started constructing his own port in 1983 with $20,000 of his personal savings.

Puerto Aguirre, on the Tamengo canal cut which leads directly into the Paraguay river, now moves some 200,000 tonnes a year, the bulk of it soya. Investment so far totals $14m.

The Aguirre family business has recently signed two joint ventures, one with Cargill, the trading company, for expansion of soya handling capacity, storage and export; the other with Williams Energy of Oklahoma for grain, oil and diesel terminals on the Aguirre land.

Around Puerto Aguirre, frontiers barely exist and integration is already a fact. Most of the buyers at the free zone – and two-thirds of the shopowners – are Brazilians. Visitors from Campo Grande some 470km away and even São Paulo are coming in ever-increasing numbers to the wetlands and lagoons of the Bolivian border to enjoy cheap holidays.

Bustling Santa Cruz is Bolivia's fastest growing region

A few kilometres away at Puerto Suarez, a consortium of Bolivian entrepreneurs is constructing a bigger and better free zone to compete with the Aguirre family's.

Mr Aguirre's dream of turning the Paraguay into the Mississippi is also a step closer to reality. In the past few months efficiency on the "Hidrovia" is rising, freight costs and round-trip times have fallen. With minor improvements and night navigation the 45-day trip from Puerto Aguirre to Uruguay's Nueva Palmira transhipment facility could be halved.

Sally Bowen

AMERICAN NEWS DIGEST

Pope agrees to visit Cuba

Pope John Paul II yesterday accepted an invitation to visit Cuba to crown the long-drawn out reconciliation between President Fidel Castro's marxist government and the Roman Catholic church under whose auspices the Cuban leader was educated.

The invitation, probably for next year, was formally delivered to the Pope during an historic 35-minute meeting between the pontiff and Mr Castro in the Vatican library. Mr Castro officially came to Rome to attend the world food summit of the Food and Agriculture Organisation of the United Nations, and the meeting with the pontiff was only finalised in the last few days.

The closer links between the Vatican and Cuba will provide an important boost to Mr Castro at a time when the island is seeking allies to fight the tightened US embargo as a result of the introduction of the Helms-Burton Act earlier this year. But they will also offer e new potential shield under which Cuba's harassed human rights ectivists can operate. *Robert Graham, Rome*

Fall in US housing starts

US housing starts fell by 5.1 per cent in October from a month earlier to their lowest level in more than a year, the Commerce Department said yesterday.

Last month's fall was the second consecutive monthly drop and provides further evidence that the pace of economic expansion bas moderated. The seasonally adjusted annual rate of housing starts was 1.366m units, the lowest figure since June 1995. The drop was much sharper than forecast by economists, who had expected an increase following a reduction in mortgage rates last month. But financial markets were mostly encouraged by the statistics, as investors interpreted them as further evidence that overall economic growth is slowing to a sustainable rate.

Treasury bond prices rose slightly in morning trading in New York, with the yield on the 30-year bond falling 0.02 points to 6.43 per cent. Stock prices resumed their upward trend after yesterday's elight fall. At 12.30, the Dow Jones Industrial Average was up 29 to 6,375.

The October fall followed a drop of 6.1 per cent in September, revised from an estimate of a 6.0 per cent decline. The biggest fall was in the north-east, where starts fell by 9.3 per cent. Only the western US registered an increase, of 6.5 per cent. *Gerard Baker, Washington*

Ecuador in Texaco claim

The Ecuadorian government has decided to back a $1.5bn claim in the US for environmental and social damage against the US oil company Texaco after a New York court ruled that the class action could not be heard in the US without the backing of the Ecuadorian government. Quito will begin by supporting an appeal against the ruling. The 68 representatives of Ecuadoriam indigenous communities and settlers from eastern Ecuador took the case to the US since the Ecuadorian legal system was not equipped for class action cases, Mr Manuel Pallares, an assistant to the prosecution, said.

The action alleges that between 1969 and 1990 Texaco was responsible for deforesting more than 1m hectares, depriving local communities of land, contaminating rivers with oil spills and production waste and the atmosphere by burning off gas.

Ms Paulino Garzon of Accion Ecologica, the Ecuadorian environmental group, said Texaco's 30 largest oil spills alone amounted to more than the Exxon Valdez accident off Alaska. *Justine Newsome, Quito*

Beijing and UK warned on HK split

By John Ridding in Hong Kong

Mr Tung Chee-hwa, the shipping tycoon who is poised to become Hong Kong's first post-colonial governor, yesterday warned of problems arising from the failure of Britain and China to agree on a legislature to span next July's transfer of sovereignty.

Mr Tung said China's plan to replace the territory's elected legislature was necessary following the lack of agreement on a legislative "through train" with Britain. But he described the rupture as "really unfortunate" and said it created "a very difficult issue".

In his first speech since winning a majority in last week's preliminary round of an electoral college ballot for the post-colonial governorship, Mr Tung gave an otherwise optimistic assessment of Hong Kong's prospects.

"I am deeply committed to Hong Kong and am confident about the future," he told an audience at a World Economic Forum conference. He cited the strong growth rate of bank deposits over recent years, a net increase in the population, and the high number of returning migrants as evidence of public confidence.

However, Mr Tung outlined a position on the legislature which raised the prospect of constitutional and logistical problems before the handover. While Britain and the Hong Kong government are strongly opposed to a provisional legislature, which will replace the present body, and China has accepted that there should not be two legislatures ahead of the handover, the shipping chief indicated that the provisional body would need to prepare bills for implementation.

Tung: 'deeply committed'

Mr Tung said that laws which had to be enacted immediately should be properly debated ahead of time. These laws included amendments to the immigration ordinances, endorsement of a new court of final appeal and bills concerning the use of flags and emblems for post-1997 Hong Kong.

An added complication is presented by the probability that many of the existing members of the legislature will also sit on the provisional legislature. Mr Tung predicted that more than half of the members on the existing body would be present on its replacement body.

The Hong Kong government has refused to assist the provisional body, adding to the logistical problems involved. Pro-democracy politicians also challenge the legality of a provisional legislature, particularly one that sits in parallel with the present Legislative Council.

Mr Tung is expected to be appointed as chief executive, as the post-colonial governor will be known, following a ballot by a 400-member selection committee next month.

Malaysian tenders touch a sore point

The trouble with sewage, says Mr David Chew, the architect of Malaysia's Indah Water privatisation, is that it does not touch people. "After the flush, they don't think about it any more."

This, he says, is the main reason why the privatisation of Malaysia's sewage services from 1993 was unpopular with the public. They had to pay more than before, but the benefits were unclear.

Yet the need for better public relations is only one of the rough edges appearing round a privatisation record that still looks second to none in Asia. Critics say that, as the scope of Malaysia's privatisation has grown, so has the need for a more sophisticated and independent approach to regulation and competition.

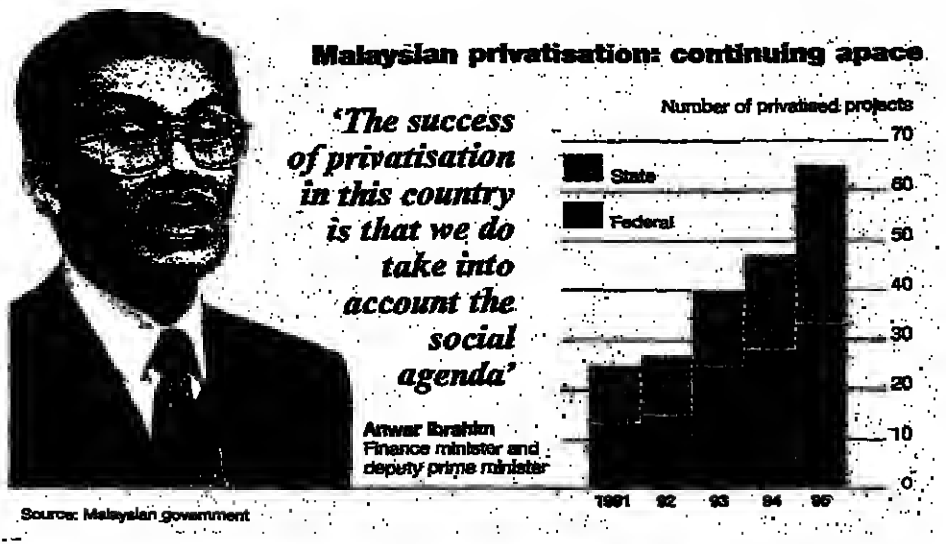
In recent years Malaysia has led the field in privatisation of infrastructure facilities such as telecommunications, roads, and power. Private sector involvement in development is expected to continue apace.

According to calculations by the University of Malaya, the private sector is expected to provide some M$68.3bn (US$27bn), or 78 per cent of total infrastructure spending, under the current five-year plan to 2000. Such an increase, however, has coincided with a rising number of disputes.

There have already been arguments over the 20 per cent rise in tolls for cars using the North-South Expressway that came into force in September.

In telecommunications, the government at first granted eight licences to private operators, then sought to consolidate the number to three, and then confused the market further by backing away from that plan.

But it is in the power sector that controversy is now most acute. Tenaga, the semi-privatised national power utility, this month blamed high prices being charged by independent power producers for a 36 per cent fall in its net profits in its last business year.



Source: Malaysian government

Mr Anwar Ibrahim, finance minister and deputy prime minister, said recently that the government, which still owns 70 per cent of Tenaga, would not force the private power producers to renegotiate their contracts with the electric utility. But it would ask them to contribute to Tenaga's social costs through contributions to its rural electrification and training programmes.

"The success of privatisation in this country is that we do take into account the social agenda," he says. Stock market analysts believe the government may also eventually allow Tenaga to increase its tariffs.

At one level the electricity issue has given rise to some unseemly squabbling between the power producers and Tenaga. Mr Francis Yeoh, managing director of YTL, one of the largest private power producers, argues that, at US$0.06 per kilowatt hour, his price is not high compared with those of other private projects in the region.

At another level the issue raises the question, like that of sewage, of how far consumers are prepared to pay for privatised services.

Businessmen like Mr Chew say consumers will pay more readily when they can see the benefits. He quotes as an example the highways that have vastly reduced journey times between Malaysia's major cities.

Others say the government's reluctance to allow tariffs on privatised utilities to rise stems more from its fear of inflation. But critics say all these problems would be reduced by the development of a more independent regulatory system. "There's no real objection to privatisation in principle," adds Mr Lim Guan Eng, an opposition member of parliament. "It's just the way it's carried out."

He blames the single tender system whereby the government often grants concessions to private sector companies to run utilities after exclusive negotiations which are non-transparent. There should be more open competition, he adds.

Mr Anwar replies that negotiations on single tender projects are "totally protected and tough". Officials are given full liberty to examine the details. As for more independent regulation, he says: "It's not considered that urgent because prices are lower than in most neighbouring countries, so there is not that much pressure or public outcry."

The single tender is not the only system Malaysia uses for privatisation. Businessmen believe it has the advantage of encouraging private sector companies to come up with innovative projects of their own and rewarding those which do.

Thus one company, Ekran, was granted the right to build the Bakun hydro-electric project which involves flooding an area the size of Singapore in the eastern state of Sarawak. But it is proving an uphill struggle for Ekran to raise finance for the Bakun dam.

The single tender system also carries a lot of risks, says one leading broker. It will get Malaysian privatisation a bad name if any of these projects backfire.

Peter Montagnon and James Kynge

Greenspan applauds Tokyo reforms

By William Dawkins in Tokyo

Mr Alan Greenspan, chairman of the US Federal Reserve, yesterday welcomed Japanese proposals for sweeping financial deregulation, but implied that Tokyo should beef up cautious plans to increase central bank independence.

His remarks, after two days of meetings with bankers and finance officials in Tokyo, are the most considered US response yet to Tokyo's plan for a London-style "Big Bang", unveiled last week.

Prime Minister Ryutaro Hashimoto has committed his government to deregulating stockbroking commissions and abolishing barriers – which still exist in the US – between banking and stockbroking, to liberalising asset allocation rules and to opening accounting disclosure more in line with international norms by 2001.

Mr Greenspan admitted being surprised by the hitherto conservative Japanese government's new move to financial reform. But he believed it would succeed, in spite of past scepticism from some quarters. "Things are changing here and I think the reason they are changing is a very increasing awareness that the underlying financial structure is not, in fact, at a sufficient level of competitiveness to match Tokyo with New York and London as key financial markets," he said.

Western financial markets might "rue the day" when the Tokyo market becomes more competitive, but in the long term a more efficient Japanese financial system would be to everyone's gain.

"International finance is not a zero sum game. It is not that any particular advances in Tokyo are at the expense of New York or London or Frankfurt... because there is interaction which creates benefits to all of us," said Mr Greenspan. Greater international use of the yen, one possible reward of Mr Hashimoto's plans, would not, for example, detract from the dollar or the single European currency, he said.

If implemented, Japan's reform plan would mark a sharp acceleration of financial deregulation. The main steps so far include letting bank subsidiaries underwrite corporate bond issues since end-1993, and consent, from last month, for life and non-life insurers to offer policies in each other's sectors, again through subsidiaries.

Mr Greenspan yesterday applauded a separate plan, proposed by a prime ministerial task force a week ago, to strengthen the Bank of Japan's freedom to set monetary policy, by ending the government's power to fire the governor. But he recommended that the central bank should, like the Fed, control its own budget.

Thai shares rebound after poll

By Ted Bardacke in Bangkok

Thailand's stock market bounced back yesterday as investors assimilated the election victory of General Chavalit Yongchaiyudh.

Shares were up 2.32 per cent after Monday's 5.8 per cent fall, helped by talk of an interest rate cut and a government bail-out of bad property loans. Analysts said the market was unlikely to see further big change until there was a cabinet line-up. It is hoping for a cabinet of professionally qualified ministers.

An announcement will not come for several days, officials of Gen Chavalit's New Aspiration party (NAP) said, as talks "had become delicate". A conflict had developed involving the appointment of Mr Amnuay Viravan as finance minister and deputy prime minister overseeing all economic and foreign affairs ministries, they said.

Mr Amnuay, the most respected economic manager supporting Gen Chavalit, said before the poll he would not join Gen Chavalit's government unless able to play a part choosing key ministers. He is due back from abroad for talks today.

World Stock Markets, Page 34

US helps Japan expand its international security role

In the remote hills around Hijudai in the western Japanese island of Kyushu, Japanese and American soldiers in camouflage and face paint have been patrolling rugged terrain as part of their largest regular bilateral military drills.

The 14-day joint land, sea and air exercises, codenamed "Keen Sword", involved more than 22,000 personnel, roughly half from each side, and took place throughout the country and in the seas off Japan. American and Japanese officers say they have been among the most successful bilateral manoeuvres.

The troops were conducting what they described as "bilateral movements against a common enemy". The "common enemy" has been officially and conspicuously nameless. But one young US officer summed it up: "We all suppose it could only be North Korea, if not the Chinese."

The bilateral drills, which ended at the weekend, were the first to take place under a defence agreement between the US and Japan that went into effect last month.

The pact, known as the Acquisition and Cross Services Agreement (ACSA), enables the two countries to supply each other defence-related goods and services, including weapons parts.

"The US used to provide its own defence support, and Japan provided its own support. This time, we can cross-service each other for all sorts of things. It makes things much more efficient," added a Japanese logistics officer.

The arrangement is unremarkable when compared with joint defence agreements between other countries, and applies to joint military training in peacetime; United Nations-sponsored peacekeeping operations; and humanitarian international rescue operations.

But for the Japanese, who are forbidden by their pacifist constitution to enter collective security arrangements, the ACSA is an important step toward expanding the country's international security role.

Previously, even for Japanese troops to provide fuel for US military vehicles in the field was a bureaucratic exercise with approval delayed by the powerful Finance Ministry.

Negotiators from both sides regarded the agreement as a triumph for the Defence Agency, one of Japan's junior ministries. The agency has traditionally lacked influence over defence budgets and policies, and is known to have lobbied the Finance Ministry intensively for the bilateral pact.

In a development that may further the Defence Agency's ambitions to upgrade Japan's international security profile, the Institute for Defence Analysis, a think-tank affiliated to the US Defence Department, suggested last week that Japan should relax its ban on collective defence.

The institute, in a report to the US Council on Foreign Relations, said Japan should prepare to play a combatant support role for American forces in regional contingencies.

In the event of conflict on the Korean peninsula, for example, the US would initially require minimum Japanese "rear-area" support, including logistical assistance, the report said.

If the conflict intensified, however, "there would be increasing pressure on Japan to move beyond rear-area missions into areas that might involve combat, and would clearly fall within the category of collective defence."

Last week at the Japanese army's facilities in Hijudai, American and Japanese officers noted that joint operations have been much smoother since the agreement.

The Japanese cited constitutional constraints to avoid participating in integrated joint training, even with its close US ally. So the two forces maintained separate command channels, and mainly conducted parallel drills throughout Keen Sword.

"This is really our first chance to utilise the actual agreement, and it will take more exercises to really get a feel for how it [the ACSA pact] will work out," said Lt Col Mark Weldron, head of exercises for the US forces in Japan.

The broader aim, however – to "refine and improve bilateral operations and promote tactical inter-operability," as one American officer put it – brought the two sides as close as they could come to integrated planning and operations.

Gwen Robinson

ASIA-PACIFIC NEWS DIGEST

Japanese official quits over 'bribes'

A senior Japanese bureaucrat resigned yesterday in a widening series of scandals that has tainted the country's bureaucratic elite. Mr Nobuharu Okamitsu, vice-minister of health and welfare, resigned after being accused of accepting more than Y60m ($540,000) in cash and gifts, including a new car and golf club membership from a nursing home developer. Mr Okamitsu, 57, allegedly took the bribes between 1992 and 1994 in exchange for arranging billions of yen in public subsidies to the developer. The developer, Mr Hiroshi Koyama, and a former health ministry official also accused of accepting bribes were arrested at dawn yesterday.

This is the second scandal at the health and welfare ministry this year. Mr Okamitsu, who rose rapidly through the ranks, was appointed to his post in July to help restore the ministry's credibility following revelations of the ministry's role in the distribution of HIV-contaminated blood products. *Gwen Robinson, Tokyo*

Money supply grows faster

Japanese money supply grew slightly faster last month, supporting the Bank of Japan's view that the economy is gently recovering. The most widely followed gauge, M2 – cash in circulation plus demand and time deposits – and certificates of deposit grew by 3.7 per cent in October, from the same month last year, slightly higher than most economists were expecting. That compares with revised 3.5 per cent growth in September.

The narrower measure, M1, consisting of cash in circulation and demand deposits, grew by 11.5 per cent, a slowdown on the revised 12.2 per cent increase recorded in September. M1 has grown much faster than the broader gauge since interest rates fell in September last year, because many people shifted money from low yielding time deposits – which make up well over half of M2 – into demand deposits. *William Dawkins, Tokyo*

Court rejects Bhutto petition

Pakistan's Supreme Court yesterday sent back ousted prime minister Benazir Bhutto's petition against her sacking, saying it contained "objectionable and scandalous portions", court sources said. Mr Aitzaz Ahsan, Ms Bhutto's lawyer, said he was surprised. He filed the petition to challenge her dismissal by President Farooq Leghari on November 5 on charges of corruption and misrule. The petition was critical of Mr Leghari for dismissing his former patron and dissolving the National Assembly. *Agencies, Islamabad*

Canada's trade moves closer to US, says WTO

By Frances Williams in Geneva

Canada has benefited from strong economic growth in the US in the past couple of years, but growing dependence on its giant southern neighbour has increased Canada's vulnerability to a US downturn, the World Trade Organisation warned yesterday.

In its latest review of Canadian trade policies and practices, the WTO secretariat notes that the US now takes four-fifths of all Canadian goods exports and supplies two-thirds of imports.

Bilateral ties have been reinforced, first by the US-Canada free trade agreement and then by the North American Free Trade Agreement (Nafta), which will eliminate tariffs between the two countries by 1998.

Tariffs on US manufactures now average 1 per cent compared with 6.6 per cent for third-country imports, the report says. As a consequence of lower tariffs and tougher rules of origin in Nafta, US-based companies produce 90 per cent of all cars, and 60 per cent of all computers manufactured in Canada.

During discussion of the WTO report, developing country textile exporters also complained that Nafta rules had resulted in diversion of trade to the benefit of Mexican and Canadian textile and clothing producers.

The WTO report commends Canada's desire to reduce reliance on the US and on a handful of traditional industries by diversifying production and trading partners.

The 137-page study concluded that Canada's overall trade policies remained "firmly anchored in the WTO," but added: "After decades of North American market integration, starting with the Auto Pact in 1965, most sectors are now exposed to, and perform well in, full competition with their US counterparts."

It also praises Canadian moves to deregulate some of the biggest and previously most protected service industries such as financial services, telecommunications and air transport.

However, the report says Canada has some way to go in opening its domestic market, for instance in sensitive sectors such as agriculture and "cultural" industries, and in liberalising investment rules.

Although the number of anti-dumping investigations has fallen since 1994, more than 90 measures remain in force, the report says. Problems also remain in extending fair trade rules to areas of provincial competence, including public procurement.

Spending on agriculture has been reduced by 20 per cent since 1994, mainly by eliminating grain transport subsidies, but supply management regimes still apply to dairy products, poultry and eggs. They continue to be sheltered by high import barriers with tariffs ranging up to 300 per cent for butter, the report says.

Region expected to be one of the fastest growing music markets for the rest of the decade

EMI and BMG look to Asia for expansion

By Alice Rawsthorn in London

BMG Entertainment and EMI Group, two of the world's largest record companies, are finalising plans to expand their Asian interests by establishing operations in new markets in the region.

Asia emerged as a dynamic region for the global music industry in the early 1990s, fuelled by economic growth and successful crackdowns on piracy. The region is widely expected to be one of the fastest growing music markets for the rest of the decade.

Sales stalled in several Asian markets during the first half of this year, largely because of a resurgence of piracy, although the market rallied during the third quarter.

Despite the piracy problem international record companies, such as BMG and EMI, are continuing to expand their Asian interests.

BMG, a subsidiary of Bertelsmann, the privately owned German media and entertainment group which owns the RCA and Arista record labels, is now in the closing stages of talks to open a subsidiary in Indonesia.

Mr Rudi Gassner, president of BMG Entertainment International, said the German group hoped that the subsidiary, in which it will own a 75 per cent stake, would start trading in 1997.

BMG also intends to strengthen its presence in the Philippines by taking control of its associate company there, and to raise its shareholding in its Thai subsidiary from the present level of 51 per cent to 75 per cent.

EMI, the UK-based music company which includes George Michael, the Beatles and Spice Girls among its artistes, is another prospective entrant to the Indonesian music market. Sir Colin Southgate, chairman, said EMI had received government permission to operate in Indonesia.

It has also concluded negotiations with a local partner to set up a business in which EMI will hold a 95 per cent stake.

EMI also plans to return to China, from which it was expelled 50 years ago, by establishing a representative office in Shanghai as a base to establish contact with local artistes and producers.

The UK group has negotiated a distribution deal with the Shanghai Record Company, originally EMI China before the Chinese revolution.

Sir Colin said EMI hoped eventually to have a fully fledged operation in China, once the authorities relaxed inward investment restrictions and curbed piracy.

BMG, EMI and other international record companies have invested so heavily in building up their Asian interests in recent years that they are now represented in most countries.

One exception is Vietnam, although both Mr Gassman and Sir Colin said that their groups would invest there as soon as the market was viable. Similarly several companies intend to wait for further progress before moving into China.

EMI results, Page 21; Mitsui-Bertelsmann venture, Page 20

Source: Hong Kong General Chamber of Commerce

Christopher prepares Sino-US summit

US officials are seeking China's entry to the WTO 'on commercially acceptable terms'

By Nancy Dunne in Washington

Mr Warren Christopher, the US secretary of state, today meets Chinese officials in Beijing to prepare for a summit between Presidents Bill Clinton and Jiang Zemin.

Mr Christopher may be on his way out of the US administration, but his presence in Beijing is viewed as an indication thet President Clinton's relations with the Chinese leadership remain on track following his re-election.

US officials have been stating with increasing fervour their desire to have China in the World Trade Organisation "on commercially acceptable terms".

Mr Winston Lord, assistant secretary of state for East Asia and Pacific affairs, said Mr Christopher would be "looking for signals" of China's willingness to "make a much better offer in terms of market access and adhering to WTO disciplines".

The US recognised an "ambivalence" in China toward WTO membership, Mr Lord said.

The cost of membership "could include opening up many of their industries, including state anterprises, to international competition and the resulting unemployment and possible instability."

Chinese officials would be urged to bite the bullet. "Our overall approach is to see them integrated more and more into the world and regional communities to enjoy the benefits of international participation, but also the disciplines, and not only to inherit international systems and norms but to help shape them," Mr Lord said.

As an additional incentive for concessions, Mr Lord talked of the "obvious linkage" between the easing of Chinese trade barriers and permanent Most Fevoured Nation US trade atatus, instead of the yearly battle for renewal.

Although the US is vowing "flexibility" in negotiations over China's WTO accession, there is e limit on how far Washington can move. To give too much to China would set an undesirable precedent for Russia and the 28 other applicants awaiting entry, US trade officials argue.

To move the process along, Mr Christopher is hoping to arrange an endorsement by Presidents Clinton and Jiang of guidelines for the resumption of accession talks. While Mr Christopher is in Beijing, Mr Robert Rubin, the treasury secretary, whose influence over trade matters is expected to grow, will be meeting his Chinese counterpart and a large delegation for the first meeting of the US-China Joint Economic Commission in 2¼ years.

The development of China's capital markets – a necessity if the country is to become more than a gigantic assembling centre – dominates the agenda.

US plans are for increasing frequency of exchanges of this sort among senior officials, culminating with a trip by Vice-President Al Gore to China early next year and an exchange of visits by the two presidents later on.

While the administration has been busy laying plans, it has done little to sell its new China policy to the public or Congress.

Anti-trade sentiment is quiescent at the moment, but this can change if the trade deficit with China – $34bn last year – soars past that of Japan's.

Business groups, as weary as Beijing is with the yearly MFN debates, have been planning a campaign to make China's MFN status permanent. However, there is no guarantee that the bipartisan centre for engagement with China will hold its own in the new, unpredictable Republican Congress.

Congressmen will see the US posture as "appeasement" over buman rights and Chinese arms and technology sales.

Congressman Richard Gephardt, the House minority leader, has proposed legislation that would require congressional approvel before the US gives final approval to China's membership in the WTO.

WORLD TRADE NEWS DIGEST

Romania in new phone row

A second consortium is threatening to take legal action after losing a tender for two Romanian GSM mobile telephone licences that are expected to bring the country more than $1bn in badly needed foreign investment. In an open letter published in the Romanian press yesterday, the Zephir consortium – which includes Motorola of the US and two Scandinavian operators, Tele Danmark and Telenor – said its offer was better than the winning groups and it would pursue the matter in court.

The authorities awarded licences to consortia led by France Télécom and by AirTouch Communications of the US and Canada's Telesystem International Wireless after rushing through the decision in the early hours of last Friday. A new government is due to be installed next week. Within hours of the awards, Telefónica of Spain announced it would take legal action over the authorities' failure to give it one of the contracts. It maintains it would promise e GSM licence when it set up a local analog mobile system in 1992. *Virgina Marsh, Bucharest*

EU boost for tequila

Producers of tequila, the strong Mexican liquor, are claiming that a recent European Union ruling will boost exports of the drink and improve its image. About two-thirds of Mexico'e tequila production is exported in a $200m a year business. Exports of 47.2m litres so far this year are 15 per cent up on a year ago.

Last week's EU ruling, which establishes an *appellation controlée* system to prevent European imitations from being labelled as tequila, is likely to increase sales further. *Daniel Dombey, Mexico City*

Australian action on trade

Australia yesterday released details of its "individual action plan" which it will present at the Asia Pacific Economic Co-operation (Apec) forum next week. Mr Tim Fischer, trade minister, also gave a commitment to review Australia'e general tariff level before 2000. This would be "subject to an assessment of progress in the liberalisation commitments by others in Apec and the World Trade Organisation". Australia's general tariff level now stands at 5 per cent, or less, for most goods.

The action plans are designed to encourage countries to show how they plan to move towards free trade in the region by 2010 (for developed economies) and 2020 (for others). *Nikki Tait, Sydney*

Brittan asks Asia for better telecoms offers

By John Ridding in Hong Kong

Asian countries must improve offers to liberalise telecommunications markets for an accord to be reached at the World Trade Organisation, according to Sir Leon Brittan, EU trade commissioner.

Sir Leon spoke yesterday in Hong Kong at the World Economic Forum of "a real chance of a deal at Singapore", referring to next month'e WTO ministerial meeting. But he said an accord would not be possible unless some Asian countries took further action to deregulate their markets.

The trade commissioner expressed optimism concerning another of the main issues facing the WTO – the membership of China. He cited a warm response from Beijing to the European idea last week of a compromise solution, in which China would make a "down-payment" of economic and trade reforms to allow entry to the body, with further measures staggered.

Following liberalisation moves in the US and Europe, restrictions on telecoms operators and investments in some Asian telecoms markets have emerged as one of the main stumbling blocks to an accord. Some countries, such as Malaysia and Indonesia, have yet to submit offers to the WTO negotiations, while others have fallen short of US and European demands.

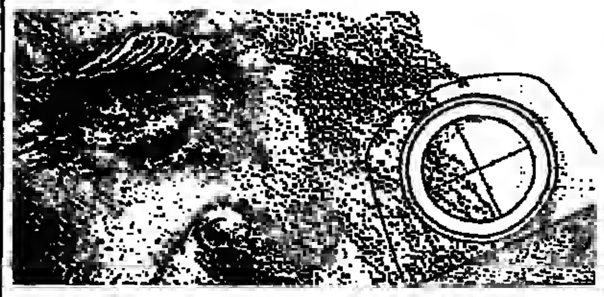
Sir Leon said that the stakes involved in the issue extended beyond the telecoms sector. "The WTO needs a specific concrete success," he said. "If we fail in our short-term objectives our long-term strategy will be blown off course."

Concerning Chinese membership of the WTO, Sir Leon said he was calling for a meeting of the "Quad group" in Singapore next month to address the issue. The meeting of the group, which comprises the US, the EU, Canada and Japan, could help speed the process of China's accession, he said.

While declining to detail measures which might be included in a compromise accord, Sir Leon cited strong enforcement of agreements on intellectual property rights and lifting of monopolies enjoyed by state trading companies as issues which would have to be addressed.

Progress has already been achieved in some areas, said Sir Leon. He noted an agreement by China to issue licences for European insurance companies. So far, four such licences have been awarded to foreign companies, all from outside the European Union.

Watching brief



Learning program

Intelligent agents – software programs which can learn from experience and act autonomously on their owners' behalf – are emerging on to the Internet mainstream. Virgin Net, the new online service launched by Virgin Communications this week, has tapped Autonomy Systems of Cambridge to allow its customers to conduct intelligent searches for information. The user types in a request such as: "Find me stock prices for high-technology companies but not for bio-technology companies." The Autonomy software, which has also been used by police forces and Barclays Bank, interprets the sentence, finds the information, and saves the search.

Autonomy Systems, UK: tel (0)1223-421220; fax (0)1223-421583; e-mail: autonomy@stjohns.co.uk

Flexible security

Hewlett-Packard has developed a way to keep information from prying eyes on the Internet without compromising governments' ability to eavesdrop on terrorists and criminals. Encryption systems use mathematical formulae to scramble information such as credit card numbers and prevent fraud, but they can be used equally effectively to conceal criminal plans.

The most secure encryption system – which requires two software "keys" to unlock the information – is so hard to crack that the US government has banned its export. This has inhibited its establishment as a global standard, a problem Hewlett-Packard has addressed by developing a flexible solution allowing companies to match the strength of encryption to the demands of individual governments.

Hewlett-Packard Company, US: tel 415-857-1501

Way ahead for mobiles

Mobile phone manufacturers and operators have united in a UK-based effort to establish a global standard for the generation of systems designed to supersede GSM. Equipment makers such as Nokia, Motorola and Texas Instruments have linked up with operators such as Vodafone, Cellnet and One-2-One to develop Universal Mobile Telephone Systems which can operate in Europe, Japan and the US.

They will announce today that they are collaborating with the UK's Department of Trade and Industry and five UK universities in the establishment of a "virtual centre of excellence in mobile and personal communications". The project cost of £3.1m is being shared between participating companies and the UK government.

VCE in mobile and personal communications: tel 01276-419202

Watching Brief is compiled by Nicholas Denton: tel (0)171 873 4357; fax (0)171 873 4343; e-mail Nick.Denton@FT.com

Using the Internet · Nicholas Denton

Paperless way to share views

The first in a monthly series on how different industries are exploiting the online world

Research – the proudest product of most investment banks – has many of the qualities of junk mail. Early in the week, as the latest batch arrives, the analysts' reports linger in 12in piles in the in-trays of fund managers and corporate treasurers. Fewer than a tenth are ever properly read; and clients complain that, in the rare event that they seek information, they cannot find it.

But the tide of paper may at last be turning. In the past six months, leading international investment banks such as J.P. Morgan, Goldman Sachs and Morgan Stanley have moved to provide their research through the Internet. In the next stage, clients will be able – with the simple click of a mouse button – to act on the analyst's recommendation and execute the trade.

Investment banks are adopting Internet technologies – which include browsers that facilitate navigation between different pages on the Internet's World Wide Web – for four main reasons.

First, it is only now – as Internet standards spread – that investment banks can transmit information electronically without requiring their clients to acquire special computer systems or software for the purpose. It also allows technically adept analysts to develop their own applications rather than depending on systems engineers. "In research, the lunatics have taken over the asylum," says one research head.

Second, use of the Internet brings efficiency gains. For instance, Montgomery Securities, a San Francisco specialist in high-technology companies, which is one of the first investment banks to distribute research on the Internet, estimates savings of $3m (£1.8m) a year in paper and postage.

Third, Internet solutions give investment banks – which worry that financial products such as derivatives are becoming commoditised – a way of maintaining the loyalty of customers and the margins on their custom. A corporate treasurer, accustomed to evaluating hypothetical trades on an investment bank's online model, is less likely to switch to a rival.

Last, and above all, investment banks are responding to competition. Motley Fool, a column on online service America Online, is more powerful than many investment bank analysts in influencing the market for high-technology stocks.

Even the initial public offering market, source of some of investment banking's richest fees, is under threat. Spring Street Brewing sold its own shares on the Internet in March 1996. "I assure you, that gave Wall Street a shock," says Alain Grisay, head of European fixed income sales at J.P. Morgan.

The largest investment banks are sanguine about the threat from new competitors such as Wit Capital and W.J. Gallagher – which have pioneered the first of the online stock offerings. Don Callaghan, principal of client link services at Morgan Stanley, says larger and more sophisticated houses will still have an advantage. "The Internet will increase the complexity and the speed of the game." Even so, the global investment banks will provide each other with plenty of competitive stimulus.

Investment banks' foray on to the Internet has come in stages. Morgan Stanley was so early when it acquired an Internet address in 1990 that it beat software giant Microsoft to the abbreviation MS.com. Investment banks' first Internet efforts were straightforward pages outlining their businesses. Morgan Stanley – its awareness of the Internet sharpened by its lead role in the 1995 flotation of Netscape – was one of the first to put up real content. In September 1995, it began publishing online the Morgan Stanley Capital International stockmarket indices and Global Economic Forum, a compilation of its economics research.

Little more than a year later, the largest Wall Street firms and the West Coast high-technology specialists such as Hambrecht & Quist almost all put up large parts of their research online for clients with a password. Just last month, Goldman Sachs launched a twice-daily electronic newspaper called Research Xpress, with a database allowing searches by anything from stock ticker abbreviations for a company or an analyst's name.

Even UK fund managers, which lag behind their US counterparts in the adoption of technology, are catching on: although just 5 per cent already use the Internet to obtain research, according to Extel, a further 27 per cent say they may use the channel in the future.

This is just the beginning. Distribution of research on the Internet still requires fund managers to search actively for information. Investment banks, like other Internet developers, are trying to tailor information for users. Morgan Stanley, for instance, is exploring "narrowcasting", which would automatically send clients research on – for instance – only those companies in which they might hold shares.

Another development in the offing is the sharing of trading models over the Internet. JP Morgan, for instance, is working on the "Trade Analyzer" – a tool designed to capture the expertise of its best researchers. Trade Analyzer, which accesses prices of 4,000 bonds and other fixed income instruments, can analyse approximately 10bn possible trading permutations and rank them according to their suitability.

The ultimate goal is online trading. As yet, the security of Internet transactions is sufficient for retail electronic broking but not for the multi-million dollar transactions between investment banks and institutions. But the leading US investment banks are working on the "Fix Protocol" – the basic set of rules essential for large-scale electronic trading. Its spread is a matter of time, most investment bankers agree.

In one sense, investment banks are slitting their own throats. With instant research and advanced tools for analysis, clients are becoming more professional at spotting pricing anomalies in markets. These opportunities are disappearing; and, by providing so much information online, investment banks also make their margins more transparent to clients.

But the investment banks – all desperate to keep their clients – have no choice. David Theobald, head of European fixed income research at J.P. Morgan, says: "Competitive pressures will force us to provide these sophisticated tools to clients." J.P. Morgan's aim is to sell not so much commodity products, such as bonds, as solutions.

As trading margins shrink, successful investment banks will have to become Internet application developers too.

Information Technology
● The FT's review of Information Technology appears on the first Wednesday of each month

ELECTRONIC COMMERCE Business to business systems

A seismic shift at IBM

When International Business Machines surveyed its oil industry customers it found that their geologists typically spent about half their time scouring the world for seismic and other data – rather than spending it on analysing the information. Enter PetroConnect, the latest on-line "industrial marketplace" to be launched by the computer group as it attempts to shed its stodgy reputation and increase its share in the fast-growing market for Internet products and electronic commerce.

PetroConnect, a private network using Internet software which IBM launches this month, gives outfits such as Petroconsultants, Petroleum Information and Excsi Corporation a broad market for the seismic data they collect. It allows oil companies, in a single step, to search across a wide range of sources for information on the territory they wish to explore. IBM receives $18.95 a month from each subscriber to the base service, and a share of 15 per cent to 40 per cent of the fee for each transaction.

On the face of it, IBM's new departure is bizarre. As it faces a challenge to its core computer hardware business, it is plunging into the development of electronic "industrial parks" such as PetroConnect. But IBM is convinced that electronic commerce plays to its strengths. "It is a natural for us," says Irving Wladawsky-Berger, general manager of the Internet division upon which IBM is staking much of its future.

Just as forums for individuals with similiar interests are one of the main draws of online services, electronic "communities" linking suppliers and customers are set to prosper on the Internet. The speed of searching over the network reduces the delays involved in paper-based deals which, according to IBM, frustrate about half of all potential transactions. Businesses, concerned about the security of the information they commit to the Internet and the enforceablity of payment contracts, also tend to prefer communities with restricted access and stable rules.

Several electronic marketplaces are already active. Nets Incorporated's Industry.Net Online Marketplace facilitates negotiations and transactions between buyers and sellers of high-technology manufacturing equipment. TitleLink, linking banks and estate agents, speeds the paperwork – the loan applications, credit reports, land appraisals and title issuance – of property transactions. But no company has been as systematic as IBM in analysing sector after sector in order to establish communities of interest.

For the electricity industry, IBM has launched Energy Network Exchange, a marketplace which will allow power companies such as Pacific Gas & Electric to use the Internet to sell excess electricity. The computer company links healthcare companies and doctors through Health Data Network and has developed a system called Autonet to allow dealers to process car loans more rapidly. "Just about any industry is a fertile field for benefits to be captured or for new intermediaries to take hold," says Lorraine Harrington of the McKinsey consultancy.

IBM is coy about its ambitions. Wladawsky-Berger says the company'e primary aim in developing electronic industrial parks is to expand the market, and sell more hardware and software to the clients which participate. If the company set itself up as one of the new intermediaries in electronic commerce, he says, it would alienate its customers.

ND

IT in action · **Andrew Baxter**

Interactive sales to surge

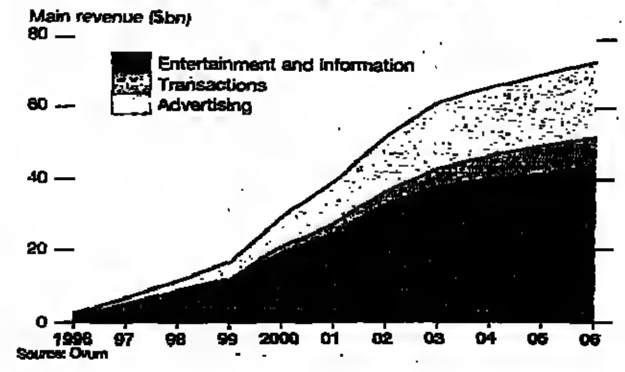
Revenues for interactive multimedia services to homes in western Europe, the US and Asia Pacific will grow from $2.2bn (£1.33bn) this year to $73.2bn in 2006, according to London-based analysts Ovum.

The explosive growth of the internet is serving as a testbed for the development of interactive services, says John Moroney, senior consultant at Ovum. Interactive multimedia services are defined as two-way, real-time, audio-visual communications that give consumers and businesses access to content stored on computers.

The report predicts that interactive services will be an important part of the competitive portfolio for the entertainment, telecoms and computing industries. But providers must keep interactive multimedia services simple for the mass market.

Interactive Multimedia Services to the Home: the Competitive Challenge, by John Moroney and Kathy Rankin. Ovum, fax UK (0)171 255 1995, e-mail info@ovum.mhs.compuserve.com £1,245.

Interactive multimedia services



Source: Ovum

Growth on smart cards

Europe's smart card market is forecast to grow by an average annual rate of 22 per cent, from 482m units issued last year to 1.6bn in 2001, says London-based consultancy Datamonitor. Over the same period, the annual US market is predicted to rise from 55m cards to 735m, while the market in the rest of the world is predicted to grow from just 153m cards sold last year to more than 1.1bn in 2001.

Worldwide, annual growth rates will average about 31 per cent over the period, taking the market from 690m in 1995 to 3.5bn in 2001. In the late 1990s, however, overall growth rates are expected to decline as existing markets become saturated and multi-function cards become more popular. The report assumes that standards for smart card design will be in place to allow demand to surge after this year.

Opportunities in Global Smart Card Markets. Datamonitor, fax UK (0)171 625 8548 or US. 212 661 5551. £1,995.

Progress for Windows 95

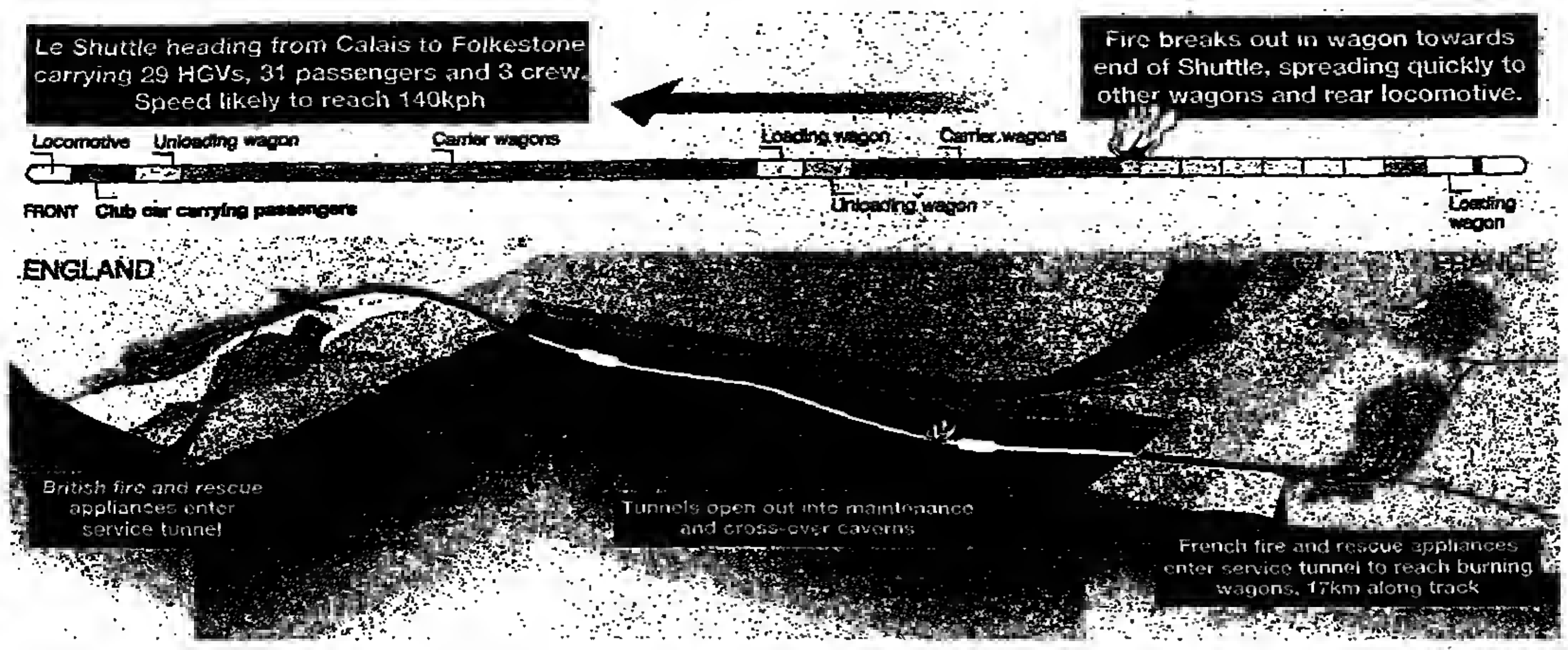
About 60 per cent of UK businesses have installed Windows 95, according to the annual AST IT Barometer Survey, but companies are cautious in implementing it across their entire organisations. Only 3 per cent of businesses have gone that far, but another 20 per cent are prepared to migrate totally to the Microsoft operating system eventually.

Survey available from AST, tel UK 0990 611611.

Concern turns to safety of tourist trains despite success in dealing with blaze on freight shuttle

Channel tunnel survives its first big emergency

By Andrew Taylor, Construction Correspondent



The Channel tunnel connecting England and France has survived its first emergency with the successful evacuation of 31 passengers and three train crew from a fire.

The tunnel did not turn into the world's longest crematorium, as some firefighters had feared. This, however, will not mollify critics concerned about what might happen if a blaze occurred on a crowded car shuttle.

Passengers in tourist wagons must stay with their cars, unlike those on Monday night, who were kept apart from their goods vehicles in a passenger wagon. Critics argue that in an emergency, panic is likely to be greater and casualties higher when passengers travel with vehicles.

Mr Richard Morris, a director of Eurotunnel, the Anglo-French tunnel operator, insists there are big differences in safety specifications between tourist and commercial shuttles.

Commercial wagons are semi-open sided, unlike tourist carriages, which are enclosed and can be sealed with fire-protective doors.

One of the concerns on Monday night was the speed with which the fire spread.

Eurotunnel was given approval by the Anglo-French tunnel safety authority to use its lattice-sided wagons only when it agreed to segregate drivers from their vehicles.

Some safety experts would like to see similar segregation on car shuttles. This, however, would increase costs and could lengthen turnround times.

Mr Colin Brown of the UK Consumers' Association said: "We have always challenged the principle of non-segregation aboard the shuttle . . . If the fire had been in the car-carrying shuttle the results could have been even worse."

Segregation does appear to have been critical in avoiding more serious casualties on Monday. Mr Jeff Waghorn, a truck driver, described how survivors, unable to leave the amenity car because of dense smoke, lay on the floor holding damp napkins to their noses.

Eurotunnel says the sealed tourist wagons, with their fire doors, would have prevented fire and smoke spreading in the same way.

Tourist wagons also are protected with automatic fire extinguishers and halon gas fire suppressors. Carriages can be automatically uncoupled and locomotives at either end of the train can pull others clear. The service tunnel, which separates the two rail tunnels, provided a vital escape route, and access for firefighters.

The Anglo-French Intergovernmental Commission licence under which Eurotunnel operates insists that a full load of car shuttle passengers – up to 1,000 people – must be abla to be evacuated within 90 minutes to France or Britain. Issues likely to be considered by investigators will include the cargo which caught fire. Eurotunnel has restrictions on what goods can be carried.

The company may also want to know why the train halted and why offending carriages were not uncoupled. It has always said that trains should if possible leave the tunnel so fires can be tackled in the open.

Investigators also will want to be assured that the tunnel's monitoring, fire-fighting, lighting and ventilation systems worked.

The system does appear to have prevented serious casualties. Eurotunnel, which had a practice drill involving 150 people 10 days earlier, claimed passengers and crew had been "in no imminent danger" on Monday night. They could have survived in the amenity carriage for up to six hours, it said.

"We are satisfied the conditions were as we'd expected them to be, and as they have been in computer-generated and real-life tests."

Yet Eurotunnel must be concerned at the extent of the damage. It may yet wish to revise its safety procedures.

Stranded travellers to shun railway

By David Owen in Paris and Jimmy Burns in London

Many prospective Eurostar passengers stranded at the Gare du Nord station in Paris yesterday said they would not use the under-sea train service again. "This is the first and last time I take Eurostar," said Mr Kallum O'Neill, a rider with the British dressage team. "It has been nothing hut a hassle. I have been trying to leave for two days."

If the disgruntled passengers at the station yesterday were any guide, Monday night's fire might have done as much damage to Eurotunnel's efforts to nurture good customer relations as it did to the tunnel itself.

Many people awaited news of a planned 16.07 departure to London via bus and ferry, expected journey time six hours. "We are not certain if it will run yet." explained a blue-uniformed official.

"I am never ever taking it again," said a young woman, accompanied by her infant son. "I have been travelling since 6 o'clock this morning and I am not going to venture off to never-never land on a boat."

Mr John Eustace, from southern England and "in tha confectionery business", wondered whether it was worth flying back to London when his car was parked at Waterloo station, more than 30km from the nearest airport.

Among those waiting at Waterloo since just after dawn was Ms Céline Kadara, a 25-year-old designer from Paris. "The weather in London is bad enough and now this happens. I just want to get home as quickly as possible and can't."

Mr Rudolf Listmann, a 40-year-old-water industry manager from Bochum in Germany said: "I've been here all morning asking what I am to do, and I have received no adequate answers. I don't call this good service. I'm travelling by plane next time."

Operator's shares dip while sea-going rivals gain

By Charles Batchelor in London

A Channel tunnel fire can never come at a good time. But, for Eurotunnel, a company that has been struggling to overcome the financial difficulties caused by an almost overwhelming burden of debt, the damage could have been worse.

If the fire had occurred before Eurotunnel had reached an outline agreement with its bankers on a restructuring of its £8.8bn ($14.5bn) debt in early October, it could have caused serious complications.

As it is, when the bankers are presented with the final proposals early next year, they will still look very closely at Eurotunnel's operating procedures and safety measures. The bankers will also look st the extent to which the fire has reduced Eurotunnel's ticket sales. "Anything which reduces this year's revenues – which are already expected to be the second largest corporate loss – is not helpful," said Mr Jeff Summers, analyst at Klesch & Co, a secondary debt trading firm.

This, and the possibility that Eurotunnel may need to invest in improvements to the safety of its freight shuttle wagons, led to the company's shares falling 3½ pence to 88 pence in London yesterday. In the end, however, the fire is not expected to lead to a fundamental bank rethink because, in practice, they have no other option than to agree to the restructuring on the terms outlined by the core group of agent banks.

It is also some consolation to Eurotunnel that the tunnel closure will take place at a quiet time for passenger journeys, although freight shipments are beginning to pick up in advance of Christmas.

Long-distance traffic through the tunnel – the Eurostars and international freight trains – will be given priority over freight and passenger shuttles because of Eurostar'e agreements with the French, British and Belgian railways.

This may provide some reassurance to potential investors in London & Continental Railweys, which owns the Eurostar passenger trains and which plans s UK stockmarket listing in early 1998 to help finance the construction of the £3bn high-speed Channel tunnel rail link from London to the English coast.

Eurotunnel will be able to run s restricted service through the undamaged tunnel. But it will still be at less than half normal capacity for many weeks because two-way working in one tunnel will require extra security precautions.

Analysts do not expect Eurotunnel's image and revanue-earning capacity to be damaged in the long term; airline crashes and ferry sinkings have failed to damage air and sea travel permanently, though they may deter some travellers in the immediate aftermath.

The prospect of a shift of business to the ferries following the fire boosted ferry share prices yesterday. P&O rose 9 pence to 606½ pence while Stena rose SKr0.50 to SKr29.40.

Lex, Page 16
London stocks, Page 30

Haulage companies whose trucks regularly use the Channel Tunnel yesterday backed calls for a thorough investigation into the causes of the fire, Jimmy Burns writes.

Mr Eddie Stobart, managing director of the company of the same name, said: "Eurotunnei will have to take drastic steps to ensure this doesn't happen again."

Worries about the adequacy of safety and evacuation procedures were expressed last night by Mr Raymond McCord, UK managing director of Norbert Dentressangle, the French group, which had two of its vehicles on the train when the fire broke out.

Mr Stobart said the investigation needed to cover issues such as the kind of products which are certified as safe for transportation through the tunnel, the adequacy of fire-fighting procedures, and the circumstances in which certain cargoes are allowed on Le Shuttle trains.

"This could have been a real disaster," Mr Stobart added. "I think lorry drivers are going to think twice abont using the tunnel. If they are given a choice, they are probably going to want to go by ferry."

Central bank says London's standing will survive Emu

By Graham Bowley in London

London's standing as one of the world's pre-eminent financial centres would not be eroded if the UK were outside European economic and monetary union, the Bank of England, the UK central bank, said yesterday.

In the bank's strongest rebuttal yet of fears that London would lose out to other European centres such as Frankfurt or Paris if the UK did not take part in Emu, Mr Ian Plenderleith, a bank executive director, said that it was "very hard to see where concrete grounds arise for concern".

He told a central banking conference in London that there were "very strong reasons for not writing off prematurely London's pre-eminent international position, which I can assure you we have no intention of allowing to be eroded".

Mr Plenderleith said proposals to overhaul the bank's daily sterling money-markets operations to bring the UK into line with the rest of Europe would be published shortly.

It is expected that a consultation paper on the plans to use gilt sale and repurchase (repo) agreements to manage the UK's short-term money markets would be launched within two months.

Mr Plenderleith gave several reasons why London would maintain its international position even if Emu went ahead without the UK. This is the first time a senior official of the bank has spelt out why it believes London would retain its high financial standing.

He said business in London came from all over the world, not just Europe. This "global, international role should not be called into question" by Emu, he said.

Rather than diverting business from London, modernisation of the main European markets had generated more business for London since it "is the international interface for the European time zone".

Institutions had set up or centralised financial operations in London in spite of uncertainty about UK participation in Emu. He said "the economics of international finance" favoured concentration in one centre "with London clearly the preferred choice".

Dr Alexandra McDermott, a chemistry lecturer at Cambridge University, a member of one of eight trade unions striking over pay at many universities yesterday

Inquiry launched after Rwanda arms claims

By James Blitz, Political Correspondent

The government last night launched a new investigation into arms trade controls in the wake of allegations that British weapons had been sold to Rwandan rebels.

An aide to Mr John Major, the prime minister, said the government was "concerned" about allegations that British companies were linked to the sale of £3m ($4.9m) of rifles, rocket grenade launchers, ammunition and other weapons to Rwanda's Hntu militia.

But although Customs and Excise are urgently investigating allegations that a company called Mil-Tec Corporation sold the arms, it was emphasised that there was "no indication" that any arms had been exported from the UK.

In a statement, the government stressed: "There is no avidance available so far to substantiate the various allegations."

But it urged people with information to give it to Customs to assist the investigation.

"As the government has already noted, we have well established procedures to ensure that any arms exports from the UK are responsible and legitimate," the statement said. "There is no indication in these allegations that arms were exported from the UK. No licences have been issued to Mil-Tec Corporation Ltd."

The Defence Arms Committee, a group of senior government officials, is to examine whether UK trade controls should be tightened and whether ministers should have extra powers to prevent British nationals and companies supplying arms from outside the UK.

The committee will report to ministers later in the year. They will then report their conclusions to the House of Commons.

The committee's work will complement a separate consultation exercise called the Strategic Export Control review and carried out by the trade department in the wake of the Scott inquiry into sales of arms to Iraq.

UK NEWS DIGEST

$50m car mart project fails

General Accident, the insurance and property group, has abandoned a three-year, £30m ($49.5m) venture to create Britain's first American-style multi-franchise car "supermarket".

GA is cancelling the project, on a 10ha site near a big shopping complex at Lakeside to the east of London, after managing to attract only one dealer during the three years. The dealer, a franchised Vauxhall outlet, will continue to trade on tha site.

The project's failure is a big setback for supporters of the car "supermarket" concept, which is well-established in North America. It is underlined by the fact that the site adjoins the Lakeside shopping complex – one of the largest in the south-east – which daily attracts thousands of visitors, and which has an estimated 11m people within less than an hour's driving time.

The Autopark was designed to house 21 dealers, who would have funded the construction of their own premises on sites held under 25-year leases from GA.

GA's decision to abandon the Autopark comes at e time when car distribution and retailing networks in Europe are being compared increasingly unfavourably with North America – where dealers, on average, sell between two and three times as many cars per outlet. *John Griffiths*

■ SCHOOL EXAMINATIONS

Results miss national targets

Schools and colleges have improved their examination results for the fifth successive year, hut by too little to hit national performance targets set for 2000, tables published by the government yesterday showed.

Schools achieved a one point rise to 44.5 per cent in the proportion of pupils achieving at least five grada A to grade C at GCSE, the equivalent of the old O-level.

Although the improvements were bigger than last year, they remained nowhere near enough to reach the government target that 85 per cent of young people by 2000 should achieve five grade A to grade C or their vocational equivalent hy the age of 19. Results for A-level – the examination on which universities base their choice of student entrants – also improved, the average point score rising from 16 to 16.8 in schools and colleges, up from 14.7 in 1993. *Nicholas Timmins*

■ ECONOMIC DATA

Many more new businesses start

The buoyant economic climate led to a sharp rise in the numbers of new businesses being started last month, indicating that the total for this year will comfortably beat the record figure set up in 1995.

Jordans, a business information company, said 16,186 businesses were started in October, 31.1 per cent up on the same month last year and one of the biggest monthly rises on record.

In the first 10 months of this year, 136,489 companies were started in England, Wales and Scotland – not far short of the 143,986 for the whole of last year. The 1995 total was 12.9 per cent up on 1994 and the highest since Jordans started keeping records in the early 1980s.

Jordans said the particularly high figure for October might be linked to entrepreneurs wishing to finalise company formations before next week's Budget which could introduce changes in business taxation. *Peter Marsh*

■ *NORTHERN IRELAND*

Award for unlawful dismissal

Northern Ireland's Fair Employment Commission has awarded more than £77,000 ($127,000) – its highest ever settlement – to a Protestant businessman who was unlawfully dismissed after the dairy company where he worked as a senior executive was taken over by Golden Vale, a company based in the Republic of Ireland. The case is the first award granted by the commission against a subsidiary of a company from the republic. Golden Vale admitted that the man had suffered "religious and political discrimination". *John Murray Brown, Dublin*

Company aims at emerging markets

Smiths Industries to widen its Anglo-American focus

The incoming chief executive of Smiths Industries is planning to raise the engineering group's international presence through a sales and marketing drive in Asia, continental Europe and emerging markets.

Mr Keith Butler-Wheelhouse, who yesterday became chief executive of the FTSE 100 company, wants to reduce its reliance on UK and North American markets, which account for almost 70 per cent of its £1bn ($1.65bn) annual sales.

The former chief of Saah Automotive, who has been reviewing Smiths' activities for three months, has identified businesses such as Vent-Axia fans and single-use medical devices as areas for rapid growth outside Britain.

"Smiths is seen as an Anglo-American company in terms of sales, but I believe there are large opportunities in other markets," he said.

Mr Butler-Wheelhouse, known as "KBW" around the group's London headquarters, said Smiths would like to repeat the example of its medical operations in Japan, where it has a 50 per cent stake in the distributor Japan Medico.

He reaffirmed the strategy set by Sir Roger Hurn, who yesterday split the role of chairman and chief executive. Sir Roger, chief executive for the past 15 years, has spent £475m on acquisitions since becoming chairman five years ago.

In that period, sales have grown 54 per cent while pre-tax profits have jumped from £103.4m to £170.4m. Under his tutelage, Smiths' market value has douhled.

More importantly, it has maintained earnings per share growth of 15 per cent a year despite the downturn in aerospace in the early 1990s. That progress has been fuelled by increasing profits from medical equipment and industrial products.

Speaking after the company's monthly meeting on acquisition strategy, Sir Roger said: "We could easily spend £100m a year on bolt-ons without straining the balance sheet."

Mr Butler-Wheelhonse, nevertheless, claimed Smiths was under no pressure to make acquisitions and might decide to preserve caeh instead. "If we cannot find the right bolt-ons, we could fill the war chest and go for the hig one."

Potential targets include Sextant Avionique, the avionics subsidiary of Thomson, the French consumer and defence electronics group.

In the meantima, the chairman and his new chief executive have agreed to adopt a partnership approach to running the group. Sir Roger, who shuns the non-executive sobriquet, is expected to remain close to the centre of things. But it will he Mr Butler-Wheelhouse calling the shots.

"I want to improve the efficiancy of this organisation," he said. "There is always room for that."

Tim Burt

ARTS

Television/Christopher Dunkley

Knees-up in a time-warp

When foreign business travellers come to Britain are they warnsd about watching television on Saturday evenings? British television is often outstandingly good; much of it (news, sport, movies] looks like television elsewhere; but the British have created a ghetto between abont 5 and 9 o'clock on Saturday evenings where foreigners will need an interpreter, a sociologist and a historian if they want to have the faintest idea of what is going on.

This is the last time-block in the week still considered by broadcasters – well, those who run BBC1 and ITV which command 67 per ceot of the audience – to require "family programming". Anyone who has regularly attended Bntlins boliday camps, church socials, pub quizzes, working men's clubs, and pantomimes (these are not alternatives, you need to be familiar with all five) will be entirely at homc with this unique and bizarre segment of British television. But those who have experienced none are likely to feel completely at sea.

ITV has been starting its Saturday evening "build" with two American formats: *New Baywatch* and *Gladiators*, which may explain why their ratings at this time are below BBC1's. *New Baywatch*, indistinguisheble from *Old Baywatch*, appears to be aimed straight at lager lads and lasses, consisting as it does, very largely, of extremely well endowed young people strutting their stuff on Pulchritude Plage. Yet the commercial breaks, full of ads for toys, hamburgers and computer games, tell a different story: children, it seems, are the expected viewers. But are those of an age for toys really interested in the 42 DD busts and heavily packed lunchboxes in which *Baywatch* specialises? It seems odd until you realise that the plots are pure Enid Blyton. This week thc trainee lifeguards were rescued from the coach trapped under a rockslide by Donna, previously cold-shouldered by the gang (though you would hardly expect to find ber misdeed – "nood modelling" – in a Famous Five story).

Though based on the American original, the British version of *Gladiators* looks like a cross between *It's A Knockout* and the rougher games we used to play at Scouts. This week's "Power Ball" contest, for instance, was a cross between Chalk Rugby and British Bulldog. Bnt while it may fit the pattern to some extent, *Gladiators* is not a typical example of the ghetto programming we are discnssing. *Jim Davidson's Generation Game* is closer. This archetypal show began in Britain 25 years ago and spent much of its existence under the command of Bruce Forsyth. Now the host is the laddish Jim Davidson, bot the show is pretty much the same.

Family duos – this week including a mother and son and a mother-in-law and son-in-law – are teased by the presentcr whose researchers have dug out some blush-making family foible. Then professionals demonstrate their skills, this week a troupe of fan dancers and the National Karate Display Team, and the contestants do their worst to imitate them. At the end prizes are displayed on a conveyor belt and the winners play Kim's Game and receive whatever objects they manage to remember, invariably including the cuddly toy. But it is the trappings which give the programme its characteristic ambience: thc embarrassing baby picture of the strapping Nevy cook, or the crockery-breaking routine in an interlude by Cannon and Ball, a pantomime sketch which is probably as old as the York mystery plays.

The atmosphere on ITV's *Family Fortunes*, which has been running for a mere 16 years, hosted for the last 10 by Les Dennis, is similar to that of *The Generation Game*. Two family teams of four compete good-naturedly to guess what 100 members of the public said in answer to a question sucb as "What does a man do before going out on a date?" to which the answers were: combs his hair, takes money out of the bank, has a bath or shower, and so on.

Perhaps you find the same sort of camaraderie today at 18-to-30 holiday parties, but the business of bonding across generations and putting a happy face on things brings to mind what one has heard about the public air raid shelters during the London blitz.

When you come to the best examples of this peculiar Saturday segment it is not only foreign visitors who may find themselves baffled. *Blind Date* on ITV and, above all, *Noel's House Party* on BBC1, obviously feel themselves to be so familiar to their regular viewers that they offer very little by way of explanation to the uninitiated. Why is that young man on *Blind Date* rolling his trousers up over his knees? Why has he pulled a handkerchief out of each pocket? Why is he Morris dancing? Has presenter Cilla Black really never heard of Azerbaijan or is this just the inverted snobbery characteristic of these slots? Why do all these people go to snch lengths to "win" a date with one another in Germany or on a Caribbean island if, as they tell us in such gleeful dctail on their return, they loathe one another so deeply?

As for *Noel's House Party* – well, where do you begin? What was Honor Blackman supposed to be doing in the black leather gear she wore for *The Avengers* 35 years ago? And why did she disappear so fast? How is it that when a man with two cartwheels of cheese places them on a table and hits them with a mallet, sending out showers of cheese droplets, everyone in the audience produces a plastic mac for protection – does this bappen every week? Why was Sun television critic Gary Bushell hanging on the back of the door? And why was Basil Brush in thc cupboard? Given that he was, why did we not get even one joke from him? What on earth was the point of the item involving two boys and a teddy bear? And what exactly was going on in that sequence where Henry Cooper walked down a dark passage hung with sacks of bank notes watched by infra red cameras while a woman in Plaistow shouted at him down the telephone?

Watching Saturday teatime television in Britain is like stepping into a time-warp and finding yourself at a knees-up in the NAAFI at Middle Wallop in 1946. There may be a few modern electronic gadgets around now, but the essential qualities are still to be a good sport, know the catch phrases, muck in, have a laugh, and whatever happens don't say anything intelligent. Nobody likes a clever dick.

Dance/Clement Crisp

An irresistible ballerina

Ever since 1958 these columns have been under the spell of Lynn Seymour's artistry. The young girl in MacMillan's *The Burrow* – the line of her legs, her total identification with character, still clear in my memory – grew into the dancer whose greatness (I use the word with all seriousness) was in part a luscious and intensely musical classicism, in part an ability to live and communicate emotion on stage with unerring truth and absolute control. As Juliet, Anastasia, as Ashton's sweet Pigeon and his Natalya Petrovna, in every role MacMillan made for her, we were made aware of the potency and the unfailing life of her portrayals. She taught me, as have few other dancers – I think of the lately deceased and glorious Paula Hinton; of Norah Kaye, that tempest of emotion on stage – that dramatic dance must be as beautiful as it is compelling.

Her career seemed ended even as those late appearances as Tatyana in *Onegin* and as Anastasia with English National Ballet in 1989 told us that her genius was undimmed, but that we might not expect much more from her in ballet. But radiant, Lynn Seymour is back and – to as many cheers as we can muster – in splendid form. (Ballerinas today reject the years: Alicia Alonso in her mid 70s, the indomitably beautiful Maya Plisetskaya who is 70, still perform in a carefully managed repertory.) Seymour is now to be seen in certain performances at the Piccadilly Theatre as the Queen in Matthew Bourne's *Swan Lake*, alternating in the role with Fiona Chadwick.

I saw her on Monday night. She appears, *en beauté* in the series of determinedly un-chic outfits with which the staging identifies royalty, and the role acquires a new significance. She offers what is known in baptismal circles as "total immersion". I love the way she believes in what she does and makes us believe too. In the flummery of the early scenes she is autocratic, disapproving, and – in the first of the *Mayerling* echoes that ring through the staging – frigidly unable to console her son. It is the second act party which best reveals the Seymour manner. Sitting at a table (and as beautiful as she has ever been) she holds our eyes. With the arrival of Adam Cooper's rough-trade black swan, she pulls off one hilarious frisson of lust (she is a sublime comedienne though too few choreographers use her sense of fun), and then launches into the action borne on a wave of amorous ecstasy. Her passion is intoxicating and, because of the continuing grace of her movement, irresistible. There are the Seymour insteps and the line of the leg – a signature that marks her presence in the choreography of every role made for her by Ashton and MacMillan – and there, too, the curving oppositions of head and torso, the swooning arms, the faultless musical sense.

There are hapless souls today who never saw Lynn Seymour in her greatest roles. Viewing her now, they will still know something of the marvels she produced on stage in her repertory. About the rest of the staging I still have reservations – the choreography is unworthy of the ideas it expresses – but none about Adam Cooper. As swan and erotic firecracker, he gives an astonishing and superbly expressed reading. His greatest moment (and, be it gratefully acknowledged, Bourne's too) is still the last act when, wholly swan and somehow conveying avian emotion in agonising terms, he seeks to help the Prince and is killed by his fellows. This is dance-acting of tremendous power and dignity. To see Cooper and Seymour together on stage is cause for rejoicing.

Lynn Seymour appears at certain performances in *Swan Lake* at the Piccadilly Theatre. Check for casting.

Lynn Seymour: both funny and lustful, seen here with William Kemp

Theatre/Sarah Hemming

A song of life

Is the West End in danger of being taken over by plays about the power of art? First we have Yasmina Reza's *Art*, starring a painting that tears e friendship apart; now comes Jon Maran's *Old Wicked Songs*, dealing with the way music can be used to conceal, reveal and heal. But like *Art*, *Old Wicked Songs* deals with e far larger subject than initially seems to be the case, and while this is admirable in intent, its execution is rather disturbing.

The play concentrates on the relationship between Stephen Hoffman (James Callis), a brilliant American pianist who has lost his nerve and Josef Mashkan (Bob Hoskins), the quirky Viennese professor, whose job it is to awaken his young prodigy's dormant talent. Stephen arrives in Vienna, bristling with arrogance, only to find that before he can study solo piano, he is to spend three months with Mashkan learning how to accompany singers.

Mashkan soon discovers that his pupil, although a brilliant technician, has never learned to love music and so he embarks on unfreezing Stephen's heart by teaching him how to sing and accompany Schumann's *Dichterliebe* song cycle.

And so they go, the path of their relationship tracing the same progress as the songs, from sorrow to renewal. But it soon becomes clear that the play has a second agenda. It is set in 1986, Kurt Walheim is standing in the elections and neo-nazism is in the air. However, Mashkan shrugs off all discussion of the subject and when Stephen announces his intention of visiting Dachau, discourages him with the words "Dachau's just e bunch of dead Jews." It would be unfair to reveal the plot twist; suffice to say that Mashkan is not what he seems and that his denial stems from grief.

And this is where the play becomes difficult to handle. Any drama that has anything to do with the holocaust needs to be brilliantly executed or it runs the risk of appearing meretricious. And so it proves with this one. It is clearly well-intentioned, thoughtful and written with compassion, yet as e piece about the trauma of the holocaust and the guilt of the survivor it is too near for its own good. When you realise what it is really about, the careful structuring comes over as a clever idea rather than an honest and deep exploration of the issues it raises. And so the ending, with the two men side by side et the piano, united in harmony, seems rather trite.

It is slow too – a problem which Elijah Moshinsky's beautifully phrased but rather languorous production does not dispel. There is much that is good, however. The relationship between haughty student and prickly professor is delightfully drawn and peppered with witty running gags.

Bob Hoskins, back on stage after a 13-year absence, is splendid as the lonely, quizzical Mashkan. Pugnacious, impish, unpredictable, he moulds the air with his hands, peeks over his glasses and effortlessly combines sadness with joy. He revels in the play's better lines and manages to overcome its bad ones. Although his accent sometimes makes a break for Colditz, he surmounts this and is unexpectedly touching.

Hoskins and James Callis build up a wonderful rapport, with Callis making an impressive stage debut as the starchy young pianist, singing arpeggios with all the enthusiasm of e thoroughbred pressed into service et the donkey rides. The two actors movingly suggest the love that grows between these two damaged individuals; one just wishes that the deeper significance of their journey together did not feel so awkwardly strapped on.

Continues at the Gielgud Theatre, London W1 (0171-494 5065).

Pop music/Antony Thorncroft

Angst: downbeat or passionate

Every year there is a new American girl singer to bring some trans-Atlantic angst into British lives with songs of departures and despairs. For 1996 we have Alanis Morrisette; in 1995 it was Sheryl Crow. Crow is not leaving quietly and is once again on the road, carrying a new album.

It is much the same – songs of broken dreams delivered in an irritatingly imprecise mish-mash of country, rock and refined punk. Sheryl Crow is also irritatingly unpindownable. She conjures up perfection – a set in the Shepherd's Bush Empire, an atmospheric bearpit of e venue which oozes tacky charm; a good looking, discreetly deft, five man band; a trim figure and an affecting voice, with something of Joni Mitchell's vibrato and Bonnie Raitt's grit – yet somehow fails to deliver.

She never looks happy with fame, hardly talking to the heaving crowd looking up in expectation. She does the business with the guitar and the keyboards but it is all rather dour and downbeat. There is no emotion in her delivery, and it is left to the band to inject the passion into songs like "Maybe Angels". Sheryl Crow hovers somewhere between her Mid-West origins and her West-Coast celebrity; her songs suggest this disorientation. They may be ideal bedsitter images but they gain little in perfunctory performance in west London.

★

Canada is one of the great power houses of pop music – not an oxymoron but a rock solid fact. Leonard Cohen, Neil Young, Joni Mitchell, k.d. Lang are more than commercially successful; they are critically acclaimed. Now Canada has come up with its own megastar for the masses. Celine Dion may never make the cover of The Face but anyone who sells out Wembley Arena for four nights can smile through the shame.

Celine Dion sells rock ballads – as soppily emotional, as lung-punchingly strident, as satisfyingly kitsch, as possible. She sells them through one outlet, a quite extraordinary voice, which, in its searing intensity, shrinks Wembley Arena to the size of a shoe box. She opened with "The Power of Love" on Saturday night, and it was impossible not to be transfixed by the sound, a soprano on super drive. The spectacle was not bad either, a tall, slim, agile figure in white, prowling a stage jumping with lights.

After that it was just another pop show. Obviously on a permanent high from her success, Dion gushes, and gushes, in her newly acquired English (she was born, one of 14, into e French Canadian family), and somehow manages to combine naivety with sophistication. There is little personal in her performance: the songs are either standards, like "River Deep, Mountain High", given a recharge; or tear-jerkers, like "Tu m'aimes Encore".

At the moment Dion is rather excitable; if she turns moody she could well become an icon. After all she can sing Bassey, Streisand, etc, into a bowler hat. Perhaps she might make The Face after all.

INTERNATIONAL ARTS GUIDE

AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Yoram Ish-Hurwitz: the pianist performs works by Schubert, Scriabin, Prokofiev, Mussorgsky and Berg; 8.15pm; Nov 21

■ BERLIN

CONCERT
Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Carmina Burana: by Orff. Conducted by Karol Borsuk, performed by the Staatliche Philharmonie Bromberg, the Lichterfelder Chorkreis, the Frauenchor Spandau, the Corale Lorenzo Perosi and the Piccolo Cantori; 8pm; Nov 21

■ COLOGNE

CONCERT
Kölner Philharmonie Tel: 49-221-2040820
● Kölner Rundfunk-Sinfonie-Orchester: with conductor Neeme Järvi and violinist Mark Lubotzky perform works by Goldstein, Arensky and R. Schumann; 8pm; Nov 23

■ DUSSELDORF

EXHIBITION
Kunsthalle Düsseldorf Tel: 49-211-8996240
● Ana Mendieta. Performance, Foto, Zeichnung, Skulptur - Eine Retrospektive: retrospective exhibition devoted to the work of the Cuban artist Ana Mendieta (1948-1985). Included in the exhibition are slides, photographs, films, and videos of her performances, drawings, and sculptures; to Dec 29

■ EDINBURGH

EXHIBITION
Scottish National Portrait Gallery Tel: 44-131-5568921
● David Roberts RA: A Bicentenary Display: exhibition on the 200th anniversary of the birth of the Scottish artist David Roberts (1796-1864). His determination and courage in exploring parts of Morocco, Egypt, Syria and the Holy Land that had rarely been visited by Europeans before, brought him lasting fame; to Nov 24

■ ESSEN

OPERA
Aalto Musiktheater Tel: 49-201-81220
● Lady Macbeth of the Mtsensk District: by Shostakovich. Conducted by Matthias Aeschbacher, performed by the Oper Essen. Soloists include Andrzej Saciuk, James McLean and Marina Sandel; 7.30pm; Nov 21, 24 (6pm)

■ HAMBURG

OPERA
Hamburgische Staatsoper Tel: 49-40-351721
● Hänsel und Gretel: by Humperdinck. Conducted by Gregor Bühl, performed by the Hamburg Staatsoper. Soloists include Yvi Jänicke, Gabriele Rossmanith and Elke Wilm Schulte; 7pm; Nov 21

■ JERUSALEM

EXHIBITION
Israel Museum Tel: 972-2-6708811
● Joint no.3: the third in a series of exhibitions featuring work by young artists. This show includes installations by the Israeli artists Yoav Shmueli and Gil Shani, the Palestinian artist Khalil Rabach, and the Japanese artist Shuji Arigoshi; to Jan 19

■ LOS ANGELES

CONCERT
Dorothy Chandler Pavilion Tel: 1-213-972-8001
● Los Angeles Philharmonic: with conductor Zubin Mehta and soprano Jane Eaglen perform works by Wagner and Strauss; 8pm; Nov 21, 22, 24 (2.30pm)

EXHIBITION
MOCA at California Plaza Tel: 1-213-626-6222
● Paradise Cage: Kiki Smith and Coop Himmelblau: a collaborative project between New York-based artist Kiki Smith and Viennese architect Wolf Prix of studio Coop Himmelblau, this installation consists of a group of new sculptural works by Smith of human and animal figures positioned within a dramatic cage-like structure designed by Prix, spanning the 60-foot height of the building's J. Paul Getty Trust Gallery; from Nov 24 to Feb 2

■ MONTREAL

EXHIBITION
Musée des Beaux-Arts de Montréal Tel: 1-514-285-1600
● Joe Fafard - The Bronze Years: a hundred figurative sculptures executed by Canadian artist Joe Fafard between 1983 and 1995 show the evolution of the artist's work after he turned from ceramics to master bronze and its patinas. Three groups of works are presented: "Artists", "Cows and Horses", and "Tables"; from Nov 21 to Feb 16

■ NEW YORK

CONCERT
Avery Fisher Hall Tel: 1-212-875-5030
● New York Philharmonic: with conductor Jahja Ling and pianist Awadagin Pratt perform works by Perle, Saint-Saëns and Dvorák; 8pm; Nov 21, 22 (2pm), 23
Merkin Concert Hall - Abraham Goodman House Tel: 1-212-5013330
● Four Nations Ensemble: with cellist Loretta O'Sullivan, pianist/harpsichordist Andrew Appel, violinist Ryan Brown and tenor Frederick Uhrey perform works by Locatelli, J.S. Bach, Beethoven and Schubert; 8pm; Nov 21

THEATRE
Walter Kerr Theater Tel: 1-212-239-6200
● Present Laughter: by Langella. Directed by Scott Elliot. The cast includes Frank Langella, David Cale, Lisa Emery, Tim Hopper and Allison Janney; Tue - Sat 8pm, Wed, Sat also 2pm; end date not known yet (Not Sun) (Not Mon)

■ PARIS

EXHIBITION
Institut Néerlandais Tel: 33-1-53 59 12 40
● Ed van der Elsken, entre films et photos: exhibition devoted to the work of the Dutch photographer and filmer Ed van der Elsken (1925-1990); to Dec 8
Musée Carnavalet Tel: 33-1 42 72 21 13
● Madame de Sévigné: between 1677 and 1696 the building where currently the Musée Carnavalet is housed served as the Parisian residence of the marquise Madame de Sevigné. This exhibition of some 250 objects, including portraits, furniture, maps, prints and souvenirs, aims to paint a picture of the life of the marquise; to Jan 12
Musée du Louvre Tel: 33-1 40 20 50 50
● Nouvelles Acquisitions. Département des Peintures (1991-95): exhibition of some 70 paintings that were acquired by the Musée du Louvre over the past few years. Included are works by Juan de Borgoña, Parmigianino, Ghislandi, Bezzani, Schönfeldt, Liotard, Kobke, Memling and others; to Jan 13

■ SEATTLE

EXHIBITION
Seattle Art Museum Tel: 1-206-625-8900
● Abstraction and Expression in Chinese Calligraphy: exhibition drawing comparisons between Chinese calligraphy and modern Western art. Twenty-four hanging scrolls and handscrolls dating from the 15th to 20th centuries are presented; from Nov 21 to Mar 23

■ VIENNA

EXHIBITION
Palais Liechtenstein Tel: 43-1-3176900
● Abstract/Real: this exhibition features sculptures, objects, installations and paintings by 38 contemporary artists who combine the concepts of "Abstract" and "Real" in their work. Artists represented include Helen Chadwick, Julian Opie, Pedro Cabrita Reis, Rachel Whiteread and others; from Nov 21 to Jan 12

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. Tel: 31 20 664 6441. E-mail: artbase@pi.net

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Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight

Edward Mortimer

Shades of meaning

The confusion over the terms 'left' and 'right' is not surprising in the aftermath of victory over communism

Less than a year ago western commentators were scaring themselves over the return of communism in central and eastern Europe.

This autumn the boot is on the other foot. Russian president Boris Yeltsin's election victory in June has been followed by defeat for former communists in Lithuania, Bulgaria and Romania. Reformed communists remain in power in Hungary and Poland, but have by and large remained true to their election promises, respecting the rules of democracy, and pushing ahead with privatisation, deregulation and fiscal prudence.

Meanwhile in the west, conservatives have returned to power in Australia and Japan, and in Spain for the first time since Franco's death. In the US, Republicans have retained control of both houses. Bill Clinton held on to the presidency, but did so with a platform in which conservatives could find little to criticise. Tony Blair hopes to repeat the trick in Britain next year.

Helmut Kohl, the German chancellor, looks unbeatable as ever, despite making the first serious attempt to trim the fat from Germany's postwar welfare state. Elsewhere in Europe, moderate conservatives seem more directly threatened by the rise of nationalist parties to their right than by any resurgence of the left. It is far easier these days to fill a hall or a street by demanding protection from foreigners than by shouting "workers of the world, unite".

As long as one sticks to the model of politics derived from the French Revolution, with parties strung out along a continuum from extreme right to extreme left, it is clear that the global pendulum is still swinging rightward. But that model gives an increasingly distorted picture of the reality of modern politics.

The terms "left" and "right" have meant very different things for most of the 20th century from their original meanings in the early 19th century. Then, conservatives (the right) stood for hierarchy, order and tradition while liberals (the left) were champions of individual freedom. In the 20th century individual freedom, especially in the economic sphere, came to be identified with the right, in reaction to the left's advocacy of collectivism and state intervention.

This confusing change was rendered even more so by a divergent use of vocabulary on opposite sides of the Atlantic. In north America the left has continued to be called "liberal", even when advocating collectivist or interventionist policies, while in continental Europe "liberals", still advocating economic freedom, have moved to the right.

British Conservatives survived and prospered for most of the 20th century by adopting a judicious mixture of economic liberalism and social democracy. Similar compromises were found in other countries, but not under the name of "conservatism", which became almost a dirty word.

In the US that name has now been reclaimed and rehabilitated by rightwing Republicans, whose economic philosophy bears a strong resemblance to that of old-fashioned European liberals – although "the L-word", in its American sense, is their most vitriolic term of abuse. British Conservatives under Margaret Thatcher's leadership became much more "liberal" in the European sense – that is, more conservative in the American sense – than they had been under earlier leaders such as Harold Macmillan and Edward Heath.

In continental western Europe, outside Scandinavia, the name "conservative" remains taboo, but policies broadly similar to those of Macmillan and Heath have been pursued by Christian Democrats, or in France by Gaullists.

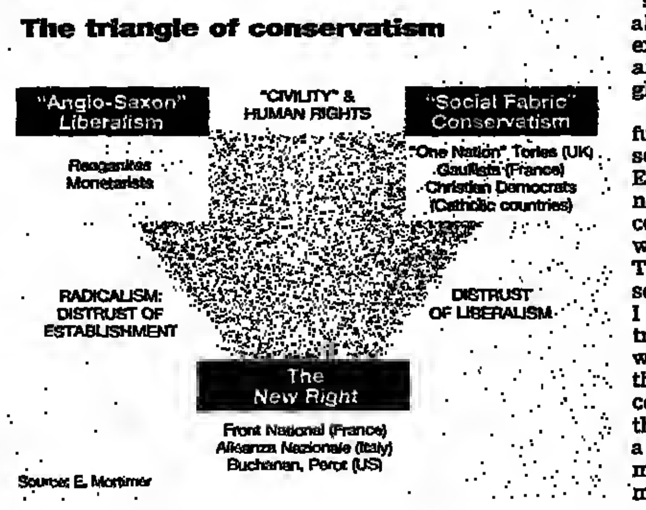
There are important differences. Christian Democrats see themselves as an international movement, competing directly with communists and socialists in building trade unions, youth movements etc. and committed to a united Europe. Gaullists, like British Tories, stress national unity and independence. But all three movements, and others like them, have traditionally sought to avoid class conflict through consultation, compromise and the maintenance of the welfare state. Much the same might have been said of US Republicans in the days of Eisenhower and Nixon.

The overriding concern of such leaders is to avoid damage to the "social fabric" – in contrast to "Anglo-Saxon" conservatives of the Reagan or Thatcher school, who tend to see that fabric as an expensive and suffocating blanket which prevents individuals from realising their full potential.

Most people would see the Anglo-Saxon neo-liberals as being to the right of the "social fabric" Tories. But it is not so easy to put the new nationalist or xenophobic rightwing movements of people such as Jörg Haider in Austria, Jean-Marie Le Pen in France and Pat Buchanan in the US (and perhaps one should add Sir James Goldsmith in the UK) further out along the same continuum. While they share the populist, anti-establishment rhetoric of Thatcherism – and indeed go beyond it with their strident xenophobia – they also share the anxieties of "social fabric" conservatives about the consequences of exposing national industry and agriculture to the global market.

All this proved very confusing to eager young "conservatives" from eastern Europe who came to a seminar session in Salzburg on conservative movements in western industrial societies. To help them find themselves on the political map, I proposed to replace the traditional linear spectrum with a triangle. But I fear they went home even more confused. Perhaps that is the proper state of mind for a conservative in the aftermath of victory over communism.

The triangle of conservatism



Source: E. Mortimer

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed on +44 171-873 5938 (please set fax to 'fine'). e-mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages.

UK's wrong signals on working directive

From Sir William Nicoll.

Sir, In opting out of the social protocol, the UK government opened up two paths towards social-policy measures. Untidily, it did not insist on a review of the proposals then in the pipeline – a round dozen, including the working-time directive – to establish whether they now belonged to the social protocol rather than to the treaty proper. Untidily also, health and safety measures can come under either.

The signal this sent to the Commission and other member states, which since 1981 had been left in no doubt about British aversion to the social chapter, was that the proposal for a working-time directive belonged where it was, that is for Community-wide application.

When it was voted on in November 1993, the UK abstained. Abstention has the same effect as voting against but is a milder objection. In the recent directive on the posting of workers, Portugal abstained, with the explanation thet the directive did not go far enough. Britain voted against, *explaining* that the directive would be harmful. When the voting rule is unanimity, abstention does not even count against adoption. The combination of the UK's acquiescence in the legal base of the Community-wida proposal and abstention when it was adopted jar with the attack *à outrance* being mounted on the directiva.

The demand is that the directive, and anything in future of the same kind, should not epply to Britain. *If this is granted, and it is* not such a big deal either way, can the other member states assume that the threat of blockage in the intergovernmental conference will be lifted? Or will they more prudently reckon that the present government, which has never concealed its lack of anthusiasm for treaty reform, will maintain all the other stoppers it has put in place (against more majority voting, a stronger role for the European parliament, the transfer to the Union of some of what at present belongs to co-operation in the fields of justice and home affairs, "flexibility" secured by majority vote in the common foreign and security policy and possibly other policies, an article upholding the objective of full employment opportunities . . . the catalogua goes on).

The others might well draw the conclusion that the choice lies between having your teeth out in one go and losing them one by one. And the few changes for which Britain is *demandeur* – no quota-hopping fishing boats, better animal welfare and an explicit restriction on the retroactivity of Court judgments – fall out as well.

William Nicoll,
Outback,
Nackington Road,
Canterbury, Kent, UK

Everyone should pay – somehow

From Professor Ira Sohn.

Sir, As someone who is more comfortable with the concept that "if you offer something of value they will pay" than the idea "if you build it they will come", I believe charging an admission fee to the British Museum is appropriate ("An admission of failure", November 16/17).

The Metropolitan Museum of Art and other publicly-financed museums in New York have had great success with "suggested" admission fees, which are reduced by half for students and elderly people. Everyone pays something, voluntarily.

While they are considering their options, the British Museum's trustees may wish to address another relevant issue that might contribute to relieving some of the budget pressure – though at the risk of further infuriating the Grand Inquisitor in Brussels: extending the museum's open hours.

If one can spend an evening at the ballet or theatre, why not at the museum?

Ira Sohn,
Montclair State University,
School of Business Administration,
Upper Montclair,
New Jersey 07043, US

Giant of a catch

From Mr Stewart Robertson.

Sir, I was heartened to see that the average size of salmon caught in Scotland did not decline last year. According to your report "Wild salmon catch down by 8.5 per cent" (November 19), the total number caught dropped to 168,000 from 183,000, and the total weight to 586,000 tonnes from 644,000 tonnes. Hence the average weight of each salmon landed was unchanged at 3½ tonnes.

Presumably the one that got away was even bigger.

Stewart Robertson,
43 Wolseley Avenue,
London, SW19 8BG,
UK

Forgotten sanction

Mr R.J. Arkell.

Sir, As almost any stockbroker will testify, Crest was originally the acronym for "Can't remember ever sanctioning Taurus".

R.J. Arkell,
Charles Stanley and Company,
Abbey House,
121 St Aldates,
Carfax, Oxford, UK

Right the wrongs of Africa's borders

From Ms Lesley Abdela.

Sir, In bar feature "Broken Heart of Africa" (November 16/17) Michela Wrong remarks that Zaire, Africa's second-largest country, is now facing a situation in which any or all of ber nine "territory-hungry" neighbours may choose to pick at her borders, not only in the Great Lakes region, but as far away as Shaba Province. "Western pundits," Michela Wrong adds, "are speculating about the long-term viability of Zaire as a state".

All true.

Africa-wide strife is now bubbling to the surface with a vengeance, traceable directly to the way existing boundaries were drawn. At the 1886 Congress of Berlin, attended by the leading European powers specifically to divide the continent up, a map was placed on a wall and lines drawn in pencil, regardless of local or regional history or tribal loyalties and historic agreements.

Just as damaging was temperate Europe's lack of knowledge of Africa at the margins of its climate – for example the Sahel. Transhumants and their animal stock need to migrate north and south as the sun itself migrates. However, they have been restricted to grazing animals in their own nations' pastures, with a consequent very serious effect in over-grazing, desertification and ground-water depletion.

Such artificially imposed lines have suppressed the sort of seismic shifts among tribes and cultures which could have released tensions. Now they point mercilessly towards further Yugoslavias.

To avoid a further century of conflict there needs to be a complex restructuring of boundaries. How you manage that, though, is anyone's guess. I wonder if that pencil from the Congress of Berlin still exists?

Lesley Abdela,
46 Portland Place,
London W1N 3DG, UK

From Mr Graham D. Child.

Sir, It has become fashionable, and surely correct, to say that greater efforts need to be made to foresee and forestall the type of problem that is now being faced in Zaire. Your article "France's African allies look for old certainties" (November 14) paints a very depressing picture of French policy in Africa and ends with the opinion of a French academic about his own country that "we have been behaving like slobs".

It seems that in trying to make efforts to forestall problems it is necessary to begin with some of our closest neighbours and allies. This would appear to support the notion of giving greater emphasis to the common foreign and security policy pillar of the European Union, for all the difficulties this may involve.

Graham D. Child,
visiting fellow,
Lincoln College,
Oxford OX1 3DR, UK

From Mr J.M. Antonio.

Sir, Despite age and experience, one can still encounter a paradox now and then. My latest was recently watching CNN's coverage of the sad agony of the refugees in Zaire, immediately followed by a programme on the United Nations showing its director-general, Boutros Boutros Ghali, in the best of moods enjoying a dance with an immaculately dressed woman.

I do not begrudge Mr Boutros Ghali's right to dance, hut should not the timing of the event and its coverage have been a bit more tactful? I do wonder what tha UN is all about.

J.M. Antonio,
249 Sta Ana,
Quezon City,
Manila,
Philippines

Israeli stock exchange slide predates poll

From Mr Zalman Shoval.

Sir, The sub-heading of your article "All eyes are on Netanyahu" (Middle East and North Africa capital markets survey, November 8) on the Tel Aviv Stock Exchange – "Israeli stocks have taken a tumble since the prime minister's election" – is misleading. As your article itself points out, the slump on the exchange began in 1994 – two years *before* Mr Netanyahu's election victory, and, as a matter of fact, the market never fully recovered from the late prime minister Rabin's ill-advised decision in August of that year (later rescinded) to impose a capital gains tax on shares.

At the end of 1992 the general share index stood et 191.64 points; by December 1994 it had slid to 166.34 – this being more or less also the present level (167.09).

Thus the state of the peace process clearly cannot be blamed for the situation. Although political circumstances can and do, of course, influence capital market fluctuations – it should be noted that the Israeli economy experienced major growth from 1989 onwards, not because of the peace process – which hadn't even stared then, but as a result of large-scale Russian immigration and the reforms of capital and financial markets introduced by the Shamir government.

Although there are different viaws on what has to be done now in order to revive the market, most experts would agree at least on the following points: to reduce eubstantially public expenditure and downsize the public sector, get on with privetisation, mainly through the stock exchange, and make a more successful effort than heretofore to co-ordinate the policies of the Bank of Israel and the Ministry of Finance.

With Israel now for the first time having a prime minister who is well-versed in economic matters and who genuinely believes in the free-market economy, the *prospects for Israel's* economy have never looked better.

Zalman Shoval,
chairman,
Bank of Jerusalem,
9 Ahad Ha'am Street,
Tel Aviv 65251,
Israel

Paying for addiction

From Mr Donald Reid.

Sir, The European Commission's refusal to stop subsidising tobacco farmers verges on the deranged ("Commission rejects cut in tobacco aid", November 14). It means everyone in the UK is paying to help produce a highly addictive substance which kills more than 100,000 Britons and 400,000 EU citizens annually.

What will it want us to *pay for next – growing* cocaine, or starting a small war perhaps?

Donald Reid,
chief executive,
Association for Public Health,
Mabledon Place,
London WC1H 9TX, UK

Risk-control system not so novel for building societies

From Mr Geoffrey Fitchew.

Sir, The linked concepts – that financial regulators should focus on risk-control systems and that top management should be held responsible for significant breakdowns in these – are not as novel as your leader "Risk and reward" (November 5) suggested. They are, for example, central to the system of supervision established in the Building Societies Act 1986, which requires directors of building societies to "maintain systems of control of business and of inspection and report".

In applying this requirement the Building Societies Commission sets great store by the annual "systems reports" which the 1986 act requires both boards and external auditors of all societies to produce, identifying any systems defects and what has been done to remedy them. We then follow up any unresolved problems with the societies and their auditors. Boards and auditors take this responsibility very seriously and produce objective reports to a high standard. This enables us to make informed and independent judgments about the effectiveness of societies' risk-control systems.

Systems-based supervision cannot substitute completely for other regulatory requirements – eg the minimum capital requirement which any deposit taker must have as a cushion against accidents or commercial misjudgments. The BSC regards its power to set minimum solvency requirements, reflecting a comprehensive assessment of the risk profile of each building society, as an essential tool for promoting prudential risk management and high standards of direction and management generally.

Finally, UK regulators are rightly required by law to observe due process before imposing any sanctions on boards or managemant. The Building Societies Act 1986, *for example, establishes an* independent tribunal to hear appeals against statutory decisions taken by the commission and all our decisions are subject to judicial review. *These are powarful* restraints against "star chamber" proceedings.

Geoffrey Fitchew,
chairman and first commissioner,
Building Societies Commission,
15 Great Marlborough Street,
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COMMENT & ANALYSIS

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Wednesday November 20 1996

No to the fudge romana

A bandwagon that started out this summer in Paris yesterday journeyed triumphantly on to Rome. The Italian government's plans to raise L12,500bn in one-off tax revenues are the largest betrayal yet of the spirit of the Maastricht criteria if not, perhaps, the most spectacular.

That honour still goes to the French government, and the half of a percentage point of GDP transfer from France Télécom which is to be used to get France to the Maastricht criteria for general government borrowing next year. Germany was wrong-footed in its attempts to have this trickery disallowed, for Maastricht purposes, by Eurostat, the statistical wing of the European Commission. Presumably the Italian prime minister, Romano Prodi, is hoping to get the same generous treatment. But Germany will be even less inclined to forgive the Italians' fudging – and rightly so.

The details of the Italian "Euro-tax" are complicated and, as yet, still somewhat opaque. But it is clear that only a small proportion will represent a lasting addition to Italian tax revenues. The largest, L5,500bn, chunk of revenues will come through a one-off tax surcharge paid by personal income tax payers next year. But the prime minister promises that 60 per cent of this money will be refunded, either as a tax credit in 1999 or in the form of an option on shares in future privatisations of state companies.

A one-off tax is not the best way for a government to persuade anyone of its long-term commitment to fiscal probity. But the Italian variant is not even strictly a tax. More than half of the projected revenues could more accurately be described as a forced, no-interest loan to the government. Related worries apply to the rest of the "new" revenues, which would largely come from one-off measures which in effect borrow tax revenues from future years so as to bolster the 1997 accounts.

Italy and France are not the only countries to have employed one-off measures to get them closer to the Maastricht criteria. Nor, probably, will they be the last. But a series of statements yesterday by German chancellor Helmut Kohl, Alexandre Lamfalussy, the president of the European Monetary Institute and the Bundesbank are a timely warning that the Emu criteria are not going to be fudged without a fight.

All three see themselves as guardians of the spirit of the Maastricht treaty and the single currency it was written to create. And all are based in Germany, the country where these things metter the most. To judge by his speech yesterday, Mr Lamfalussy has few doubts that this spirit has been violated by the artful arithmetic of Italy and other countries.

The president of the forerunner to the European Central Bank stressed that a high degree of sustainable convergence was a vital precondition for Emu, helpfully providing the dictionary definition of convergence: "The ability to maintain or keep an effort going continuously."

He added: "The question to be asked is whether there are any reasons to believe that a satisfactory performance is maintained only due to special circumstances." In Italy's case there are many reasons to suppose that next year's reduction in public borrowing is due to special circumstances: not least the fact that several of the measures simply add to future years' borrowing what they take away next year.

Luckily, perhaps, for Mr Kohl, the question may not arise. Even with the help of the Euro-tax measures, Italy has very little chance of meeting the 3 per cent of GDP deficit criterion in time to join the first wave of Emu.

It has been a political and economic mistake to tolerate some of the transparent fudging that member states are employing in their attempts to qualify for Emu. Inevitably it has encouraged those even worse placed to follow suit. But Italy's latest efforts go beyond what can be accepted.

Power switch

British consumers may need some time to get used to the idea of paying their electricity bills to Americans – especially if they thought that monopoly profits were being extracted by US groups. The regulatory risks should already be reflected in the prices offered by Dominion Resources of Virginia for East Midlands Electricity and by CalEnergy of Nebraska for Northern Electric. If both takeovers were to be completed, 40 per cent of the UK's electricity supply would be controlled from the US.

The Dominion bid has been agreed and that by CalEnergy is contested, but both might yet be blocked after a reference to the Monopolies and Mergers Commission. Moreover, Offer, the UK electricity regulator, must agree modified licences. It will need to be satisfied that it can obtain the same quality of financial information from the merged group as it would from a separate quoted company.

Provided that adequate information is made available, there is no obvious reason why either bid should be blocked on competition grounds. However, the public, as well as the regulator, should have full access to the profits and other performance data of regulated monopolies. The public needs this information to decide whether the regulator is doing his job – by setting price caps at levels which will prevent excessive profits from being earned.

This will be particularly important when ownership passes to a foreign company which would be relatively immune from British political pressures. One way of ensuring transparency would be to insist that the subsidiary continued to be listed on the stock exchange.

These difficulties will be diminished when a fully competitive market allows all consumers a free choice between different suppliers. Even then, however, competition rules will need to be strenuously policed; and unusually large profits would provide at least a scent for the bloodhounds.

Vanishing banks

A Mexican court seems unwittingly to have come up with a novel solution to a costly problem. If most Mexican banks do not exist – as a court in Baja California has ruled – neither can Mexico's banking crisis. This should save the government the estimated $30bn that would have been needed to rescue the banks, had they existed.

Unfortunately for the government and the banks, life is not like that. Instead of sorting out Mexico's banking crisis, the court ruling will complicate its resolution – with luck not disastrously – by encouraging more debtor defaults.

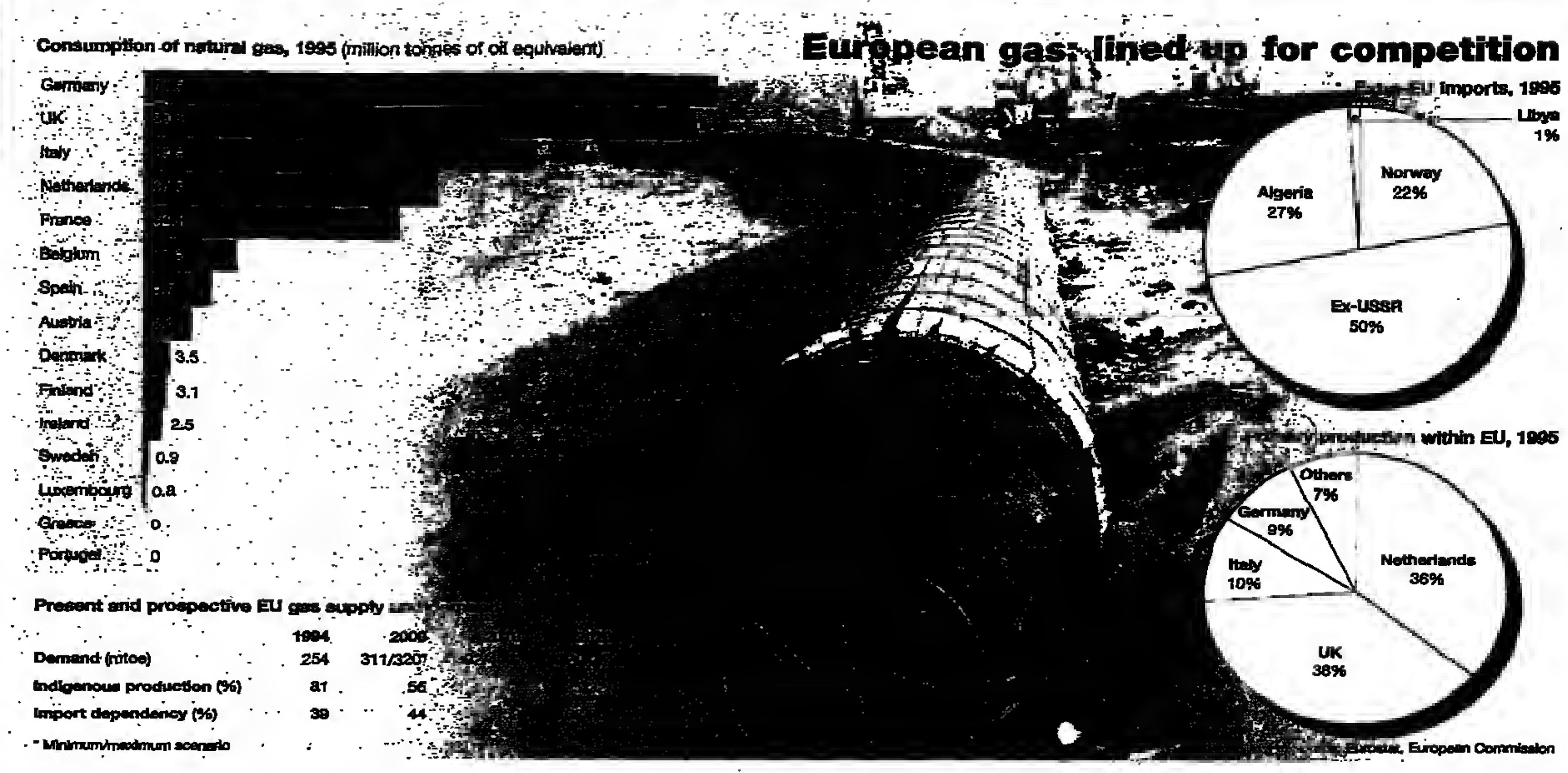
The judgment serves to highlight, however, two connected issues that will plague Mexico as it stumbles towards democracy. The first is Mexico's chaotic and corrupt judicial system; the second the poor drafting and scrutiny of legislation.

Neither problem is unique to Mexico, for the high cost of poorly functioning legal systems is being belatedly recognised all over Latin America and beyond. As the World Bank has pointed out, the absence of a functioning legal framework can "greatly hinder development, discourage and distort trade and investment, raise transactions costs and foster corruption".

Mexicans are too often prey to arbitrary actions, often by police and government officials – but a court system that can deem banks not to exist does not offer them much comfort.

The reason for these failings is clear: an all-powerful president could interpret or ignore law as he wished. Now presidential power is waning, Mexico must act to fill the vacuum this has created. To do so, the country needs the rule of law to be respected and the law itself to be good and well written.

The Mexican government has a long agenda. But the modernisation of the judiciary and its archaic procedures, and the provision of proper research facilities and professional legal support for its hapless legislators should be a top priority.



On the front burner

After decades of monopolistic control, Europe's gas market is poised for liberalisation, say **Robert Corzine** and **Neil Buckley**

The boardroom at the Paris headquarters of Gaz de France, the country's natural gas monopoly, might seem an unusual place to find Ms Clare Spottiswoode, Britain's crusading gas industry regulator.

Gaz de France has long been among the staunchest defenders of the monopoly-dominated status quo in the European gas industry, while Ms Spottiswoode is a vocal advocate of competition on her home ground.

But such meetings are a sign that the previously glacial pace of change in Europe's gas industry may be about to give way to a new dash for gas competition.

"When I first started going to Europe to talk about competition they didn't want to hear me," says Ms Spottiswoode. "They saw me as the wicked witch of the west. But the directors at Gaz de France were incredibly well-versed in what we are doing in the UK. They know change is coming."

Next week senior energy officials from around the European Union will gather in Brussels to discuss a working paper on draft legislation to liberalise Europe's gas market, which will be presented to energy ministers on December 3.

After a false start in 1993, when the EU withdrew a proposed gas directive to concentrate instead on opening the electricity market, there is optimism in Brussels that agreement could soon be reached on legislation to bridge one of the most glaring gaps in the single European market.

Agreement between tha 15 EU states in June on a directive to liberalise electricity, after eight yeara of bard negotiations, suggested that a similar agreement on gas could be achieved quickly. Both Ireland, holder of the rotating EU presidency, and Mr Christos Papoutsis, EU energy commissioner, want to exploit the momentum created by the electricity agreement. The Netherlands, which sncceeds Ireland to the half-yearly presidency at the end of the year and which has the largest natural gas reserves in the Union, has indicated that getting a gas agreement will be one of its priorities.

The politicians also hope to take advantage of growing commercial pressure to open the European gas industry. Liberalisation, argue large gas consumers, will bring lower prices and enhance the competitiveness of European manufacturing. They cite the US, Canada and the UK, where the introduction of competition in commercial and industrial gas markets has led to sharp price falls.

"Over the past 10 years US gas customers have saved $85bn [£50.9bn] as a result of competition," says Mr Rich Kinder, president of Enron, the largest US natural gas group. "The financial benefits of opening the European gas market would be equivalent to "a massive tax cut for EU citizens", he adds.

In the UK, gas prices to consumers have also fallen steeply as a result of competition. Wholesale gas prices in Britain are about $1.40 per million British thermal units (Btu), against an avarage $2.50 in continental Europe and $1.60 in the US.

But those who defend the status quo in continental Europe say neither the US nor the UK is a relevant model. Both are self-sufficient in natural gas, whereas most European countries depend on large imports from gasfields in Russia, Algeria, Norway and Libya.

Only national gas companies have the muscle to negotiate with the likes of Gazprom, Russia's largest and most politically powerful company, say opponents of liberalisation. They also argue that producers would not invest the billions of dollars needed to develop new fields and pipelines if they did not have the security of a 20-year or 30-year contract with a national supplier in western Europe.

Mr Pierre Gadonneix, chairman of Gaz de France, argues that stronger European demand for gas will require companies such as his to take direct stakes in gasfields and pipelines in Russia and elsewhere to ensure adequate supplies.

Statistics support his view of an expanding but ever more import-dependent market. EU consumption of gas rose 4.7 per cent in 1995 – much more than in other forms of energy – to almost 300m tonnes of oil equivalent. Of this, only 182.6m was produced within the Union's borders. Imports from outside the EU increased 10.6 per cent.

That trend will continue. Gas is projected to increase its share of the EU's energy market from 19 per cent to 26 per cent by 2010. The EU is forecast to import up to 50 per cent of its natural gas needs by 2005, and up to 75 per cent by 2020.

Advocates of liberalisation say worries about supply are overblown. "It's the same argument made in the US 10 years ago," says Mr Kinder at Enron. "Europe is positively advantaged by being surrounded by large gas basins." UK officials say "a lot of buyers with contracts with a lot of different producers" would give the EU greater security of aupply.

Other proponents of liberalisation claim that lower prices in Europe would trigger a surge in gas demand. That would cause both large producers from outside the EU and smaller ones within the Union to increase their output.

"In the US and Britain liberalisation has resulted in over-supply, not under-supply," says Mr Peter Lehmann, bead of British Gas's European division.

In public, large gas exporters such as Gazprom insist that the present system of long-term "take-or-pay" contracts still benefits producers and consumers. But gas exporters to Europe are building new pipelines that will boost capacity by between 50 per cent and 75 per cent within years.

Such a rapid increase in capacity could trigger e price war in Europe, say industry analysts.

Much attention is focused on Gazprom, whlcb bas lerge amounts of uncommitted gas close to the Yamal export pipeline that is under construction. "Tbe evailebility of large and growing volumes of low-cost gas in a region close to a new export pipeline to Europe poses e considerable risk to the stability of the European gas market," according to Mr Stephen O' Sullivan, oil and gas analyst et MC Securities in London.

But e free-for-all could prove useful for the advocates of liberalisation. British government officials admit that the country's ambitious goal to open the gas market fully to competition in 1998 bas been possible only because of a gas glut in the North Sea. A similar situation in continental Europe could ease the way for EU liberalisation by intensifying competition among suppliers to sell their gas.

Energy officials at the European Commission say consultations among the industry and consumer groups found a consensus in favour of liberalisation. But discussions have also uncovered deep divisions among member states over how far and how fast liberalisation sbould proceed, and highlighted important differences between the gas and electricity markets.

The biggest problem is wbat to do about the bundreds of billions of dollars worth of take-or-pay contracts. These commit European gas companies to pay for high-priced gas from the main producers even if cheaper, alternative supplies were available. Gazprom alone has $160bn worth of such contracts with European gas companies.

In the UK, the continuing ettempt to release British Gas from its take-or-pay contracts has been one of the most difficult elements of liberalisation. "It is ballishly complicated," saya one executive involved in the talks between British Gas and North Sea producers.

Sorting the problem out on a pen-European scale would be even harder. The idea of e Europe-wide consumer levy to buy out the contracts has been floated. The belief is that price reductions resulting from liberalisation would more than offset any levy, although some officials believe a levy would prove politically impossible; the EU's working paper leaves open the question of how to deal with the take-or-pay contracts.

That issue is likely to be one of main sticking points in the ministerial talks. But it is not the only problem. The uneven development of the European gas industry could also make it difficult to adopt a single, uniform directive covering all member states. Countries such as Portugal and Spain are at the early stages of building national gas grids, so a directive would probably have to allow for monopolies to be maintained wbile those markets are expanding.

Another sticky issue will be the need to separate gas transport from supply, so that all gas companies have the right to use pipeline operators. "In Britain you have the pipeline company actually supporting competition because it makes more money shipping more gas through the system," says a UK official. The US experience shows that "open and transparent pipeline tariffs are the key" to competitive gas markets, says Mr Kinder.

The extent to which EU governments are prepared to embrace such concepts will become clearer when ministers bold their first discussion on the new directive next month. But after the optimism sparked by the agreement on electricity liberalisation in the summer, a spirit of realism about the obstacles to a gas agreement has returned to Brussels.

As one Irish official pnts it: "I've been known to bet on the horses, but I wouldn't bet on agreement on this before the end of the Dutch presidency next summer."

· OBSERVER ·

Phantoms at the opera

■ The Philippine hosts of the Apec (Asia-Pacific economic co-operation) leaders' summit this week are leaving nothing to chance. More than 25,000 troops have been deployed in Manila to thwart terrorist or kidnapping attempts on leaders of the 18 member countries including Bill Clinton of the US, Jiang Zemin of China and Ryutaro Hashimoto of Japan.

Chief of Apec security, General Abadia, said yesterday that personnel had even been well-briefed. "We are prepared for everything, including war."

Even the possibility of supernatural intervention has been covered. The local authorities have called in a university clairvoyant – or "questor" in the local slang – to exorcise ghosts at the National Film centre, which is located next door to where the Apec meeting will be held.

The ghosts are said to be the spirits of workers who died during the centre's construction in 1981. In an accident the workers became buried up to their waists in fast-setting concrete, from which they could have been freed only at great risk and considerable financial cost. The head of the project, Imelda Marcos, wife of the late dictator Ferdinand, was said to have ordered managers of the site to bury the workers alive, rather than dismantle the entire building.

"They [the ghosts] want an eye for an eye. They are very fixated on revenge," said Tony Perez, a psychology lecturer and questor. The former first lady has not been invited.

I'm not going

■ So why is Jean-Jacques Bonnaud, chairman of France's GAN insurance group, refusing to go quietly? It's traditionally expected of French state company bosses that they jump before being pushed, but Jean Arthuis, finance minister, has felt himself forced to make a public call for Bonnaud's resignation.

Bonnaud says he refuses to be made a scapegoat for the aborted privatisation of GAN's CIC banking subsidiary, claiming that he had loyally accepted Arthuis' wish to sell CIC off before its GAN parent. He's insisting on sticking to a prior appointment with Arthuis on Thursday, after the latter returns from accompanying President Jacques Chirac to Japan. Chirac's absence in Tokyo also means that the next cabinet meeting that could revoke Bonnaud's mandate will be November 27 – by which time Bonnaud may calculate that Arthuis might *himself* be on the way out.

For, with Chirac due to make a TV address to the nation on his return from east Asia, there are suddenly a lot of government reshuffle rumours in the air; some consider that Arthuis' job might be in play.

Others reckon that any hope Bonnaud has of making his peace with a new finance minister is completely misplaced, because Arthuis is only acting as hatchet man for Alain Juppé, the prime minister, and the latter – despite his unpopularity – is expected to be in charge for a while longer.

Crunchy barred

■ James Amoroso will be taking less interest than usual in today'e 10-month results from Nestlé, the world's biggest food company. Until a few weeks ago Amoroso was an analyst with Credit Suisse, reckoned by many to be Switzerland's number one Nestlé-watcher. He had a reputation for asking the awkward questions other analysts sometimes forgot. But now British-born Amoroso is looking for a new job.

The official reason for his departure is that Credit Suisse is concentrating its pan-European research of Europe's three biggest food companies – Nestlé, Danone and Unilever – in London, and bas given the job to the group's London analyst, Anne Alexandre.

But it's also the case that Amoroso, who has worked in the food industry, was not Nestlé's biggest fan. When he downgraded Nestlé two years ago he was asked to explain his reasons to Rainer Gut, Credit Suisse's chairman. Since then Gut has taken a great interest in Amoroso's comments on Nestlé. As well he might – after all, Gut is vice chairman of Nestlé. And Helmut Mancher, Nestlé'a boss, is vice chairman of Credit Suisse.

Credit Suisse says Amoroso, an ambitious chap, was not content to be relegated to the number-two alot, so he walked. Who knows? He might be still top dog if he could have bitten his tongue . . .

Nuptial knockout

■ The ceasefire in the former Yugoslavia took a turn for the worse this week, when an angry husband fired a hand-held rocket at his wife after a violent row. Fortunately he missed his spouse, but hit his bouse and destroyed it, according to UN spokesman Alexander Ivanko, who says police in the Serb-held town of Bijeljina in Bosnia have arrested him for illegal possession of a firearm.

The Financial Times

100 years ago

Happiness in Argentina
Times are flourishing in Argentina; the atmosphere has cooled, and this and some welcome downpours of rain have thinned the ranks of tha locusts. The "camps" are flourishing, the wool clips proceeding exceedingly well, and the capons are reported to be unprecedentedly fat. Even the newspapers are prospering. The editor of the Buenos Ayres Standard, according to his own statement, was presented in one singla week with a bottle of whisky and a "splendid Argentine ham". It is something to be an editor in Buenos Ayres, and we sincerely bope that our colleague of the Standard enjoyed his dinner.

50 years ago

French Exports Rise
In October, French exports reached a high for this year, amounting to Frs 11,028 milliards, against Frs 9,5765 milliards in September, but imports also recovered.

Rail Nationalisation
The Government terms for acquisition of the major transport undertakings have caused no surprise to the interests affected. It has been known for some time that there was no prospect of an agreed basis between the parties.

FINANCIAL TIMES
Wednesday November 20 1996

London is leading centre for credit derivatives

By George Graham in London

London has overtaken New York as the leading centre for the fast growing market in credit derivatives, which allow banks to insure against the risk that their borrowers will not repay them.

The first credit derivatives were created in New York in 1992, but a survey by the British Bankers Association says the London market is already larger than New York, with contracts outstanding covering $20bn of loans. That is estimated to be about half of the world market.

Large banks have started to pour money into credit derivatives which they see as one of the most exciting new opportunities to boost trading and manage their risks.

Banks can use credit derivatives to hedge themselves against changes in a borrower's credit-worthiness, in the same way that traditional derivatives such as interest or exchange rate swaps and options enable them to hedge against market fluctuations.

Dealers contacted by the BBA said the London market was likely to grow to more than $100bn by 2000 – a number which still pales beside the $46,000bn of traditional interest rate and foreign exchange derivatives. But even in London, the biggest participants are all US institutions, such as Chase Manhattan, or Japanese securities houses such as Daiwa and Nomura.

Although banks spend millions of dollars hedging interest rate and currency risks, most banking disasters still result from old-fashioned credit problems.

Usually banks have run into trouble by lending too much to one risky sector, such as Latin American governments in the 1980s or Japanese property developers in the 1990s.

Bankers believe credit derivatives will give them a more sophisticated way of managing their credit risks.

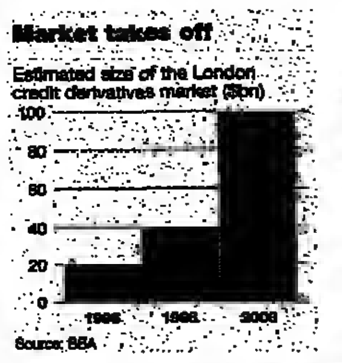
Emerging market debt is expected to be the biggest application for credit derivatives, but leading dealers also believe European monetary union will open up a new market. Because the euro will eliminate currency risk in the European monetary union area, credit risk will become the only factor separating one government's bond interest rate from another's.

The earliest credit derivatives were known as default swaps. In effect, a bank pays an insurance premium to another bank, which promises to pay up if a borrower defaults on its loan.

But the fastest growing segment is now credit spread derivatives which allow banks to trade smaller shifts in a borrower's credit rating, short of outright default.

Global role, Page 12

Market takes off



Source: BBA

Pilots hit at 'unsafe' air traffic control in Africa

By Michael Skapinker in London

Flying over most of Africa is unsafe and only good fortune has prevented a mid-air collision, international pilots said yesterday.

The International Federation of Airline Pilots' Associations, with 100,000 members in 90 countries, said air traffic control and radar facilities were insufficient over three-quarters of Africa.

The federation is concerned that a mid-air collision like last week's in India, which killed 351, could happen in Africa.

It said many controllers were poorly trained and unable to communicate properly in English. Pilots were having to use in-flight radio facilities to predict collisions and take evasive action.

"Giving the flying public and pilots the impression that they are flying through an area in which their flight is continuously regulated and safeguarded could not be further from the truth," the federation said.

Airport facilities in many countries were poor – many African airports had no way of preventing people, animals or vehicles wandering on to runways and taxiways.

Mr Peter Quaintmere, the federation's technical director, said the problem had been made worse by a large increase in flights between Europe and South Africa since the end of apartheid.

South African air traffic control met international standards, as did that of others including Zimbabwe, Botswana, Namibia, Egypt and Morocco.

While many airlines flying between Africa and Europe had advanced collision avoidance systems, many of the African-operated aircraft flying east or west did not.

The federation said: "Pilots are forced to maintain their own [aircraft] separation in flight conditions where they should be provided with an air traffic control service."

But British Airways, one of the biggest operators to Africa, said it was satisfied all its flights were safe. Air traffic control in Africa was "not identical with that over America" but BA said its pilots, and those of other airlines, had been trained to take account of this.

The company said that pilots flying over Africa made frequent broadcasts to alert other aircraft before entering areas with inadequate air traffic control.

These broadcasts were also made while travelling through these areas and when changing altitude, BA said.

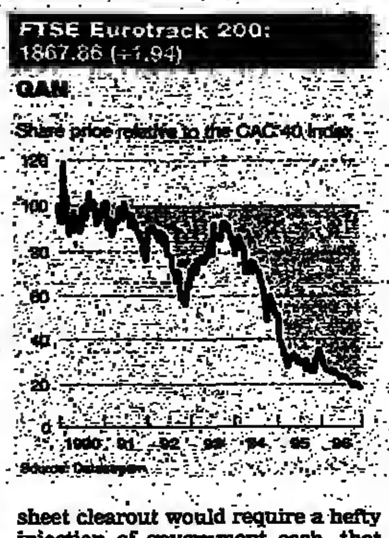
THE LEX COLUMN

Roman numerals

Mr Romano Prodi, Italy's prime minister, is a man of his word. Last month, in a reference to some questionable budgetary arithmetic in France, he said: "If others carry out window dressing, we can do the same." Yesterday he lived down to that boast, announcing a L12,500bn ($8.26bn) tax fudge which makes a mockery of the Maastricht Treaty's provisions on economic convergence. The detail may be vague, but the intention is clear: to present the illusion of fiscal rigour without the associated pain.

A L5,500bn rise in income taxes will be partly reimbursed: Italians will be able to choose between a tax rebate in 1999 and an option to receive shares in companies slated for privatisation. Another L3,500bn simply involves bringing forward tax due in future years. Neither measure improves the underlying state of public finances. The charitable view is that Mr Prodi had little choice, boxed in by election promises not to raise the tax burden, prickly coalition allies and vociferous trade unions. But even if he has placated domestic constituencies, the tax package does not deserve to survive scrutiny in other European capitals.

Monetary union built on this sort of fiscal wheeze is not only economically unsound but politically unsaleable in a country like Germany. And even if these measures are endorsed, few economists believe they will be enough for Italy to qualify for the first round of a single currency. Qualifying late would make more sense than an unseemly dash for the line.



Source: Datastream

GAN

It is, perhaps, understandable that GAN's chairman prefers to be forced out than accept the government's very public invitation to resign. But following the shambolic row over the planned sale of GAN's banking group, CIC, his impending departure – and presumably that of CIC's chairman as well – at least offers a clean solution. The challenge for the government now is to find replacements with the tact and determination to bring about the quickest possible privatisation of both companies.

At first sight, this looks a daunting task. Not only is GAN loss-making; its true balance sheet if CIC and a disastrous portfolio of property loans were accurately valued would not be a pretty sight. Nonetheless, although a balance sheet clearout would require a hefty injection of government cash, that would be defensible provided it formed part of a fast-track privatisation plan. And a genuinely clean balance sheet should be enough to make the group saleable to a decent range of potential trade buyers. The underlying insurance businesses may not be sparkling, but they are certainly worth something.

Meanwhile CIC is saleable as it stands; to maximise the number of potential buyers it and GAN should be sold separately. CIC needs to be sold with as few restrictions as politically possible, in terms of preserving the group's high-cost regional structure. And most important of all, the government needs to be genuinely open to foreign buyers for both companies.

Channel crossings

If evidence were needed that Eurotunnel's share price has lost touch with reality, its 4 per cent fall in response to Monday night's fire provided it. Of course the effects of the fire are likely to dent the tunnel's cashflow, both through the immediate disruption to services and perhaps some ongoing loss of frightened customers. But Eurotunnel believes it is insured against the loss. In any case it is an irrelevance for shareholders: under the terms of the planned restructuring, all the tunnel's revenues for the next few years will belong to the banks. It is they, not shareholders, which are at risk.

Similarly, the rise in P&O's share price looks overdone. If the market is to be believed, increased custom following the fire has boosted the group's value by more than £50m ($82.5m). Since the company's total annual revenue from channel crossings is less than £300m, this looks rather unlikely. If investors are pinning their hopes on large, ongoing diversion from the tunnel, they are likely to be disappointed; after all, customers are not going to forget that ferries can have accidents too.

Probably the best that can be said for yesterday's price movements is that Eurotunnel's fall is a little of the right result for the wrong reason. On any fundamental measure, the shares are worth much less even than the current price. But not only is the fire irrelevant; a 4 per cent fall is nothing like enough to make the market price credible.

EMI

EMI's maiden set of results were a hit with investors, and rightly so. Against a backdrop of flat world music sales, and poor performances from PolyGram and Warner Music, expectations – and EMI's share price – had been pared to the bone. But EMI's weakness in the American music market is currently proving a strength while US music retailers try to discount their way out of trouble. Meanwhile, sales in emerging markets, which make up 15 per cent of music profits, are rising rapidly. And growth is underpinned by the world's largest music publishing business, which is cashing in on a proliferation of new television channels and therefore licensing fees.

Of course, EMI's Christmas release schedule looks considerably less sparkling than last year. And in sterling terms, the global music market grew by only 2.5 per cent in the six months to September. This makes for an alarming contrast with EMI's 50 per cent prospective price/earnings premium to the stock market average.

Nonetheless, EMI's 13 per cent dividend increase looks a robust response to such concerns. Margins are improving and the hefty start-up costs for the HMV retail business should soon start to pay back. Its shares offer a lower enterprise value to cashflow multiple than the media sector average, so the current valuation does not look stretched. Besides, takeover talk may have subsided, but the logic for a link-up with Seagram's MCA music business has not – and the rewards would be considerable.

Additional Lex comment on Vodafone, Page 21

French chief

Continued from Page 1

group by the end of the year. Mr Lamassoure hoped new sell-off plans would preserve the unity, employment and regional character of CIC with its 11 regional banks and their 1,300 branches.

The minister also revealed the extent to which the first attempt at privatisation had flopped. Of the two bids for CIC, that of Société Générale had been discarded because it had failed to offer "a firm or definitive price", leaving Banque Nationale de Paris as the only contender. However BNP, which is reported to have offered between FFr6-7bn, "did not fully guarantee the financial interests of the state", Mr Lamassoure said.

Tunnel fire

Continued from Page 1

getting light-headed. Another five minutes and I think there would have been a proper disaster." The passengers were led to safety by Mr Emile Grard, 43, the French "chef de train", who followed luminous arrows marking the way to the service tunnel.

Channel tunnel safety has been a source of controversy since before the start of services in May 1994, with authorities imposing standards intended to make it 20 times safer than any comparable stretch of railway. Eurotunnel claimed some measures, installed at additional cost of £400m-£1bn, were excessive.

Glaxo may give malaria drug to developing world

By Daniel Green

Glaxo-Wellcome, the world's largest pharmaceuticals company, is understood to be set to give away supplies of Malarone, its new malaria medicine, to sufferers of the disease in developing countries.

The company is to publish details today, at the International Conference on Tropical Diseases in Nagasaki, Japan, of trials in which the malaria parasite was eliminated from the blood in 98.5 per cent of the 400 people taking the drug. Further trials are under way to determine whether the drug can also be used to prevent malaria.

Malarone has already been submitted to UK health regulators, whose approval to market the drug is to be announced today. Regulatory approval in developing countries normally follows UK approval.

Between 2m and 3m people die each year from malaria, according to the World Health Organisation. The disease accounts for 10-30 per cent of all hospital admissions in tropical Africa.

About 80 per cent of the 500m cases a year are in sub-Saharan Africa. Most of the rest are in South America and south east Asia.

Malarone was tested on people infected with the *plasmodium falciparum* strain of malaria that is responsible for most of the deaths. The drug is at early stages of testing on three other strains.

The treatment involves taking four tablets of Malarone for three days. Such simple dosing should make it feasible to run a large donation programme.

Malarone is a mixture of two older drugs, atovaquone, which is a pneumonia treatment, and proguanil, an existing malaria drug.

Glaxo would not be the first large pharmaceuticals company to give away a drug in countries that could not afford to pay western prices. The US drugs company Merck has largely eliminated the tropical disease onchocirclasis, also called river blindness, with its donation programme. The Merck drug, Mectizan, needs to be taken only twice, at a 12-month interval.

Mectizan pills were distributed by the Task Force for Child Survival and Development, an affiliate of the Atlanta-based Carter Centre, the non-governmental organisation founded by Mr Jimmy Carter, the former US president.

Malarone was invented by Wellcome, whose origins were in a charitable trust. Glaxo took over Wellcome last year.

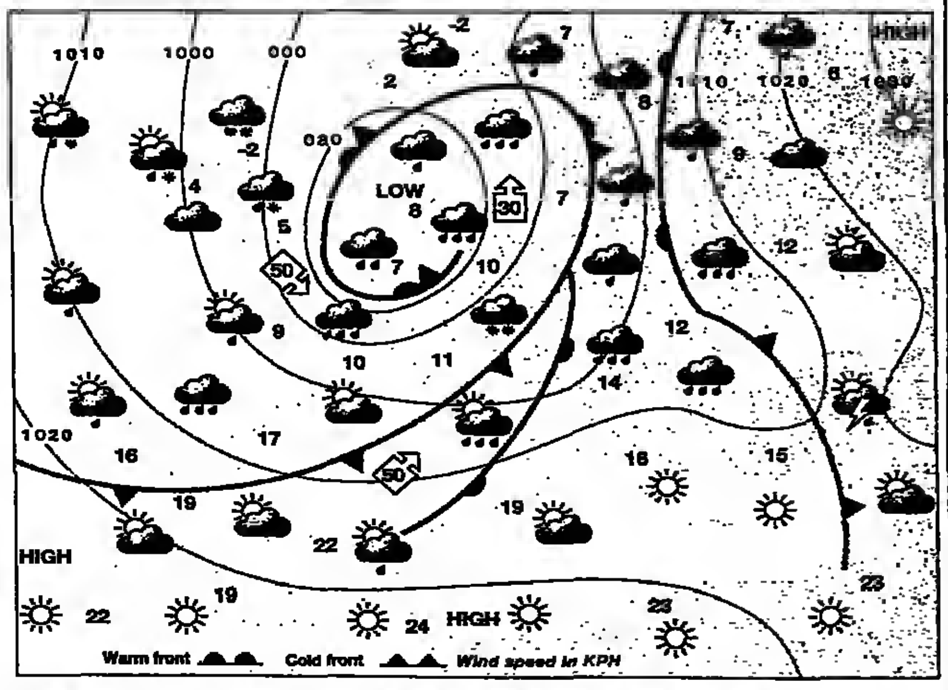
FT WEATHER GUIDE

Europe today

It will be wet throughout the day. Precipitation in western Europe will probably fall as rain or sleet but there will be snow on higher ground, particularly in the Alps, as the low pressure zone responsible for the conditions moves north-eastwards from the Benelux. Along the west side of this low, wind speeds may reach 75kph near the coast of East Anglia. Turkey will have frequent thunder showers but afternoon temperatures will be near 20C. Spain will be mainly dry and only the north will have showers.

Five-day forecast

Europe will remain unsettled. A low pressure area will bring snow to Scandinavia. In its wake, a north-westerly flow will push cold air deep into the continent, resulting in frequent wintry showers. The southern Adriatic will be stormy.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

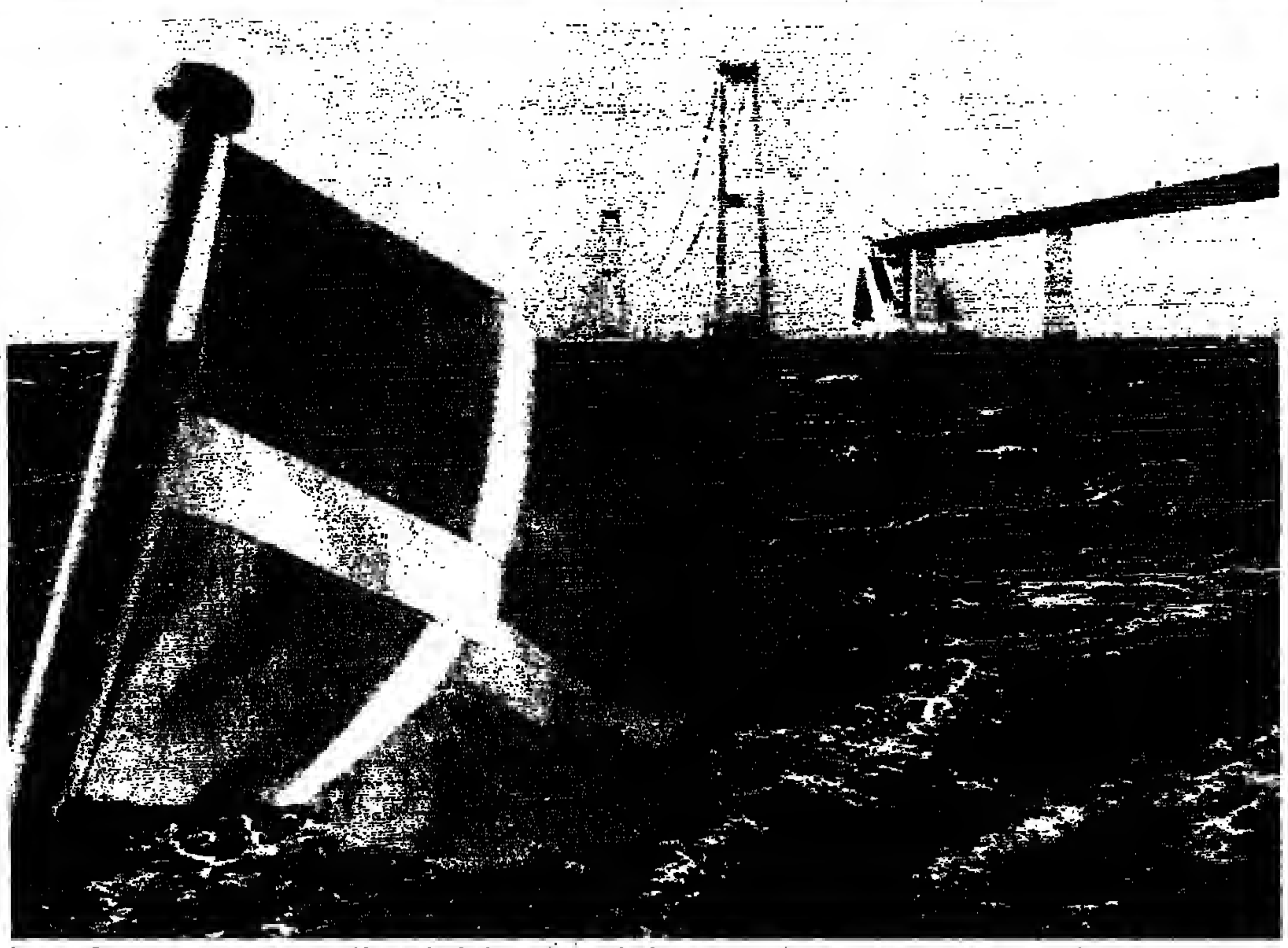
TODAY'S TEMPERATURES

	Maximum Celsius	Beijing	sun 9	Caracas	shower 31	Faro	shower 20	Madrid	rain 13	Rangoon	fair 33
		Belfast	shower 3	Cardiff	cloudy 3	Frankfurt	sleet 4	Majorca	cloudy 19	Reykjavik	snow -4
Abu Dhabi	fair 28	Belgrade	cloudy 15	Casablanca	sun 19	Geneva	sleet 3	Malta	fair 19	Rio	shower 28
Accra	shower 31	Berlin	rain 6	Chicago	rain 7	Gibraltar	shower 18	Manchester	sleet 3	Rome	thund 20
Algiers	fair 22	Bermuda	shower 24	Cologne	sleet 4	Glasgow	sleet 1	Manila	shower 29	S. Frsco	shower 17
Amsterdam	rain 5	Bogota	thund 21	Dakar	sun 27	Hamburg	rain 8	Melbourne	fair 14	Seoul	shower 10
Athens	sun 17	Bombay	sun 33	Dallas	sun 28	Helsinki	fair 6	Mexico City	fair 24	Singapore	thund 31
Atlanta	fair 20	Brussels	rain 7	Delhi	sun 27	Hong Kong	fair 21	Miami	fair 27	Stockholm	cloudy 4
B. Aires	sun 30	Budapest	rain 11	Dubai	fair 29	Honolulu	fair 27	Milan	rain 9	Strasbourg	sleet 5
B.ham	sleet 2	C.hagen	sleet 4	Dublin	sleet 2	Istanbul	shower 16	Montreal	snow 1	Sydney	shower 22
Bangkok	fair 32	Cairo	fair 25	Dubrovnik	rain 13	Jakarta	shower 30	Moscow	cloudy 6	Tangier	rain 18
Barcelona	cloudy 18	Cape Town	fair 17	Edinburgh	snow -1	Jersey	shower 7	Munich	cloudy 8	Tel Aviv	cloudy 25
						Karachi	fair 28	Nairobi	fair 24	Tokyo	rain 15
						Kuwait	shower 28	Naples	rain 16	Toronto	snow 1
						L. Angeles	shower 19	Nassau	fair 28	Vancouver	sleet 4
						Las Palmas	fair 22	New York	fair 7	Venice	shower 11
						Lima	cloudy 23	Nice	shower 12	Vienna	rain 9
						Lisbon	shower 17	Nicosia	rain 18	Warsaw	cloudy 8
						London	sleet 4	Oslo	cloudy -1	Washington	fair 8
						Lux.bourg	sleet 3	Paris	rain 6	Wellington	shower 14
						Lyon	rain 5	Perth	fair 28	Winnipeg	snow -7
						Madeira	fair 21	Prague	rain 8	Zurich	sleet 3

DENMARK

Welfare burden threatens the state's prosperity

Despite good short-term prospects, the cost of unemployment and an ageing populace is forcing a change of political climate, says Hilary Barnes



The East Bridge across Great Belt: the bridge will be the longest suspension bridge in Europe and the second longest in the world

A raft of new measures planned for next year and aimed at bringing the young and long-term unemployed back into work is just one indicator of a change currently sweeping through Danish politics.

For a long time one of the most generous providers of welfare support in Europe, Denmark is coming to terms with the threat posed to its economic foundations by the financial burden it is already shouldering, and by the prospect that this will increase further as a result of demographic shifts which are producing an ageing of the population.

Looked at in the short term, the economy is stable and strong if judged by the usual indicators.

The current account, in deficit for 26 consecutive years to 1989, has since been in comfortable surplus and is currently about Dkr10bn or 1 per cent of gross domestic product.

After a "growth pause", which began in the autumn 1995, the Danish economy seems to have entered a recovery phase earlier than the economies of the rest Europe.

Manufacturing output and orders have picked up strongly over recent months, and the important Danish pigmeat industry is booming on the back of the European beef crisis.

The GDP growth rate will slip from 3.6 per cent in 1995 to about 2.0 per cent this year, but is expected by the government to rise to about 3.0 per cent or slightly more in 1997. Inflation has not been a serious problem since the mid-1980s. Consumer prices over the 12 months to September rose by 2.3 per cent.

Denmark would even – if it had wished to be considered – been among the countries in the first group qualifying for membership of Emu.

Its budget deficit will be only about 1 per cent of GDP in 1996, (against the 3 per cent criterion laid down in the Maastricht treaty), falling to 0.5 per cent in 1997 before moving back into surplus. Gross national debt as a proportion of GDP is one of the lowest in Europe at about 60 per cent.

Under the opt-outs obtained by Denmark as a condition for holding a second referendum on the treaty in 1992, Denmark will not, however, be participating in the common currency, and public opinion polls show no signs of a wish to change this stance.

Yet, while the country's economic performance has been good, a closer examination of employment figures gives some indication of the problems that are being stored up.

The headline unemployment figure has fallen from 12.4 per cent at its peak in 1993 to less than 9 per cent currently, but most of the reduction has taken place as a result of the withdrawal of individuals from the labour market. Job creation has made only a relatively small contribution to this process.

About 1m Danes of working age, about a quarter of the age group, are supported entirely by social welfare incomes of one kind or another and, for some, welfare dependency has become a way of life.

To support the welfare system, government expenditure has risen to about 60 per cent of GDP, while the tax burden at 51 per cent of GDP is listed as the highest in Europe by Organisation for Economic Co-operation and Development statistics.

The changes, which are scheduled to take place in the New Year, are designed to start rolling back this burden.

Unemployed Danes under the age of 25, whose access to benefits has until now remained largely unchallenged will after six months be given a choice between accepting a make-work job which is provided by the local council or enrolling in a study course which will equip them for a proper job.

A year later similar provisions will affect the long term unemployed over the age of 25. Benefit reforms which are again intended to promote a return to work will also be introduced.

At the same time, other signs of a change in the national mood are emanating from the Social Democratic Party, founded 125 years ago as the party of the industrial proletariat. A powerful campaigning organisation, the party dominated Danish politics from the late 1920s until the early 1980s.

It is still the biggest party in Denmark, is able to count on about a third of the vote, and will continue to play a crucial role in Danish politics for the foreseeable future.

Under its leader Poul Nyrup Rasmussen, the prime minister, it is the dominant partner in the current minority coalition government, formed in 1993, with the small social-liberal Radical Liberal Party and the Centre Democrats.

Popular support for the SDP has been falling, however, and has been further eroded by a tendency this year on the part of the coalition government to appear accident-prone.

The government was, for example, strongly criticised this month for what was seen as its maladroit handling of a visit to Copenhagen to receive a European Union literature prize by the UK author Salman Rushdie.

The government first cancelled the visit on security grounds, then reversed the decision when it met a barrage of domestic and international criticism, alleging cowardice in the face of the Iranian "fatwa" against Mr Rushdie.

The coalition's reputation was not improved, either, when the foreign minister, Niels Helveg Petersen, made allegations of double-dealing by the prime minister before assuming leadership of the party in 1992 when he ousted the incumbent, Svend Auken (now energy and environment minister).

The prime minister admitted that he bawled out his foreign minister who, however, did not resign.

Finally, finance minister Mogens Lykketoft, a shrewd political operator, had hoped to secure a majority for the 1997 Finance Bill, which receives its final reading in mid-December, through a deal with the Conservative Party.

This is a manoeuvre he executed last year, opening up a damaging split between the two key opposition parties.

But the Conservatives were not prepared to co-operate on this occasion, leaving the government looking around for a "patchwork" of support from different parties for various sections of the Finance Bill.

There is no serious danger that the government will fall to carry the Finance Bill, but once again, the public has been left with the impression of an administration not fully in control of its own destiny.

The next election is not due until September 1998 at the latest but the coalition's recent tribulations have caused Danish commentators to wonder whether the government can hold on to power until then.

Waiting in the wings are the Liberal Party, led by the former foreign minister, Uffe Ellemann-Jensen, probably Denmark's internationally best-known politician, and the Conservative Party, led by the former minister of justice, Hans Engell.

If opinion polls are any indication this far from an election, these two parties have a good chance of being able to form the next government, which, true to tradition in a parliament which invariably includes eight or nine parties, would be another minority administration.

The welfare reforms reflect a more general move by Mr Rasmussen to take his party – like the Labour Party in Britain – towards the centre ground in politics.

Since taking over as leader in 1992, Mr Rasmussen has set in train a modernising process within the party which at its peak was able to win over 40 per cent of the vote.

By the 1994 election it won 34.6 per cent and in recent opinion polls it has slipped to 29-31 per cent.

Continued on page 2

Stockholm shoppers: Sweden has the lowest annual inflation rate in the European Union *Tony Andrews*

■ **The economy:** by Hugh Carnegy

Prognosis is good on many fronts

Only the high rate of unemployment threatens to cast a cloud over economic issues

As Sweden heads into wioter, the Social Democratic government is fervently hoping the economy is *finally* emerging into spring after five hard years of recession followed by a deep crisis in the public finances.

The prognosis is good on many fronts – certainly much better than most bad forecast at the beginning of the year. However, a very dark cloud – in the form of total unemployment close to 13 per cent of the workforce – still hangs ominously over the country, threatening to spoil any economic summer.

But first the good news.

"A picture of Sweden as a country seriously committed to low inflatioo and sound government finances was gradually establisbed during the spring and summer," declared Mr Lars Heikensten, deputy governor of the Riksbank, the central bank, in an upbeat speech in New York this month. "All in all, in the past year there has been a radical, positive reassessment of the Swedisb economy," be added.

Evidence for this is clear in a number of key indicators. A fiscal programme of unprecedented severlty implemented over the past two years by the minority SDP government – which in all encompasses savings and revenue increases wortb some 8 per cent of gross domestlc product – bas taken a firm grip on the public finances.

From a peak in 1993, wben the budget deficit reacbed 12.3 per cent of GDP, the deficit bas been brought down to an anticipated 4 per cent this year. Latest estimates from tbe finance ministry foresee a deficit of 2.6 per cent next year and a balance in 1998. As a consequeoce, the state debt has been stabilised and is now falling slowly. It should come down *to* 78 per cent of GDP next year.

Perhaps as impressive as any acbievement so far is the record on inflation. Sweden was one of Europe's biggest *inflation addicts* in *the* 1970s and 1980s: today it has the lowest annual inflation rate in the European Union – and oo big rise is anticipated in tbe next year or two.

All these factors have led to a blg fall in interest rates. The Riksbank has repeatedly lowered its key lending rates this year and long-term bond yields have tumbled from a position wbere Sweden suffered from a premium over benchmark German rates of more than 4 per cent to a gap of less than 1.5 per cent today. And in a clear sign of restored market confidence, the krona has meanwhile strengthened considerably despite the fall in interest rates. The stronger currency has had a negative impact on the earnings of some of Sweden's big exporters – but the trade balance and the current account remain in *healthy* surplus. The current account surplus will be some 3 per cent of GDP this year and is expected to rise to close to 4 per cent next year.

Erik Asbrink: aiming for e permanent budget surplus

This year has seen a fall in the *rate of economic growth* – caused by a combination of the squeeze on public consumption at home and the economic slowdown in the rest of Europe which also hit Sweden's *exporters*. GDP is expected to rise by 1.6 per cent this year after 3 per cent in 1995 – but the outcome is still better than many expected in the first half.

What is more, the government – and most independent economists – see stronger growth next year. The finance ministry's forecast is for a 2.3 per cent increase in GDP. The Confederation of Swedish Industries is among those with a more pessimistic outlook. But the government believes an economic pick-up elsewhere in Europe allied to solid private consumption at home will produce a lift.

All these developments bave put Sweden firmly in the frame to qualify for the EU's monetary union in its planned start in 1999. But both Mr Göran Persson, the prime minister, and Mr Erik Asbrink, the finance minister, have pointedly refused to advocate such a step outright in the face of deep opposition both within the SDP and the electorate at large. Mr Asbrink has, instead, suggested Sweden could wait some years before joining – a stance endorsed this month by a commission of independent academics appointed to study the issue.

The commission said Sweden needed to get unemployment down and establish more firmly the balance in the public finances before it took such a step.

Mindful of an adverse reaction in the financial markets to a decision to duck out of Emu, at least initially, Mr Asbrink has been at pains to stress that he is now aiming for a permanent budget surplus to emphasise his commitment to retaining full control of the public finances, Emu membership or not.

But, as the Emu commission pointed out, the overwhelming economic issue now facing Sweden is unemployment.

Since the onset of a three-year recession in 1991, unemployment has haunted Sweden, a country which enjoyed virtual full employment in the 1970s and 1980s. Long after the recession ended, the rate of "open" unemployment still hovers around 8 per cent of the workforce. A further 5 per cent are on government training schemes.

Mr Persson has pledged to halve open unemployment by the year 2000 – but even the finance ministry's forecasts do not envisage this being achieved. The problem is that the current economic growth is simply not creating many net new jobs. The public sector is shrinking and the industrial sector has grown mainly through productivity gains. Things have not been helped by high wage gains by those in work – which overall grew by 5 per cent last year.

The employer and industry organisations and the conservative opposition are urging the government to deregulate the country's rigid labour market structures in an effort to price more people into jobs and encourage entrepreneurial growth. A package of measures allowing some greater flexibility in hire-and-fire rules for smaller companies has been proposed by the government.

However, the powerful trade union movement has set its face against fundamental changes in the labour market regime. Mr Persson, too, argues that loosening controls to allow, in effect, wages to fall is not the way to go. He is pushing hard for the unions and employers to hold down wage agreements so that labour costs do not spiral.

But he is determined that Sweden should instead increase competitivity by investing in education to increase the skills of the labour force. He has yet to convince many Swedes, however, that this approach will produce significant job creation.

■ **Banking :** by Hugh Carnegy

Nervous courtship ritual

Speculation over restructuring has grown as banks recover from the loan loss crisis

Sweden's banks – uncomfortably conscious of mounting competitive pressures between them – are circling each other warily in a nervous courtship ritual that is likely soon to result in significant mergers or takeovers within the sector.

That, at least, is the expectation of most observers of the local banking scene.

After recovering from a traumatic loan loss crisis in the early 1990s, Swedish banks now confront tha awkward and intertwined challenges *of achieving growth* in a mature market, coping with deregulation and new technologies, and the threat of tougher foreign competition that the anticipated advent of European monetary union is likely to herald.

Joining forces to build bigger, stronger operations is a clear way to meet these challenges. "Everything is up for grabs," says Mr Peter Thorne, banking analyst at Paribas in London and a confident predictor of restructuring in Sweden.

Speculatlon over what may happen has encompassed all the top four banks – Svenska Handelsbanken, Skandinaviska Enskilda Banken, Nordbanken and Swedbank. The banks *themselves have made* no secret of their own belief in the need for restructuring.

Swedbank – known domestically as Sparbanken Sverige – *has* openly sought a merger with Föreningsbanken, tha fifth-largest bank. Although so far rebuffed by the farmer-controlled target, Swedbank in June bought a 5 per cent *stake* in Föreningsbanken.

S-E Banken has also clearly stated its intentions. "S-E Banken must, like other big banks, be stronger in the face of the coming globalisation of the banking market," Mr Björn Svedberg, chief executive, said in a *recent newspaper interview*. "There are a number of different interesting alternatives for a bank like S-E Banken. It can be to buy or sell different bits, or merge with another."

The restructuring speculation comes as the banks have completed the long process of recovery from tbe loan loss crisis, which came close to sinking the banking system and which forced the government to pump in SKr85bn to rescue several of the banks.

This year, the big banks have *each spun off the big* property boldings they acquired as security against bad loans when a collapse in property prices in tha early 1990s sparked the credit loss crisis. Their loan losses have also fallen back to levels well below 1 per cent of their total lending portfolios.

The chief victim of the crisis, Nordbanken, now has the highest return on capital in the sector (27 per cent in tha first nine months of this year) after it was beavily recapltalised and restructured by the state.

Last year, the reprivatisation of Nordbanken was begun with the SKr6.7bn flotation of a one third share on the Stockholm bourse. The state's share is now being reduced to under 60 per cent in an *innovative* share buy-back by the bank.

Underlying performance by the banks has improved considerably – helped by a trend of sharply falling interest *rates this year. Profits* before loan losses for tha four main banks were up by an average of 5 per cent in the first nine months, compared with the same perlod last year.

Their revenues-to-coste ratios (before loan losses) ranged from 2.30 for Handelsbanken to 1.86 for Swedbank. Average return on capital was 21.8 per cent. Reflecting the improvement – and merger speculation – the banking index on the Stockholm bourse has risen almost 50 per cent in the past year.

The chief problem now for the banks is where to find growth and profit opportunities *in an increasingly* crowded market. Loan demand has been flat for some time and is not expected to expand greatly in the coming years.

At the *same time*, regulatory changes mean the traditional dividing lines between banks, insurance companies and other financial services ara eroding. The banks themselves are taking advantage of this by moving beavily into life assurance and othar savings-linked products. But on the other slde of the coin, a clutch of "niche" banks bave been opened by companies such as Skandia and Trygg-Hansa, the insurers, and even Ikea, the furniture retailer.

Technology is also making a big impact: the rise of telepbone banking – in whicb Sweden is a leader in Europe – and the rapid reduction of paper-based transactions is raising big question marks over the future of the banks' large branch networks.

Last, but far from least, the likely advent of European monetary union seems set to exposa all regional banks *in Europe to greater* cross-border competition as the role of their domestic currencies diminishes. Even if, as it now seems likely, Sweden does not join Emu from its planned start in 1999, the assumption by the banks ie that tha country will join within a few years.

If all thesa factors are arguing for consolidation within the *Swedish* banking sector, the qnestion is: Which will join forces with which?

Peter Thorne at Paribas suggested earlier this year that the two greatest rivals over the years, S-E Banken and Handelsbanken, would make a fine match. Combining Handelsbanken'e strengths in retail banking with S-E Banken's investment banking power would raise profits by 35 per cent and create a clear leader in Scandinavian banking, he reasoned.

Not long after, reports surfaced in the Swedish press that preliminary merger talks had indeed been beld between the two banks. But Handalsbanken later declared that talk of a merger "lacked actuality", dampening speculation.

This month, a new round of speculation was set off when the chief executive of Stadsbypotek, a state-controlled mortgage bank, said he understood S-E Bankan was talking to the government about buying the state's remaining majority share in Nordbanken. This was promptly denied by Mr Erik Asbrink, the finance minister.

Other speculation sees Stadshypotek being *taken* over by Nordbanken, to strengthen the latter's mortgage presence against Swedbank'e market leader, Spintab. Tbe possibility of crose-sectoral mergars between banks and insurers – or soma form of co-operation with foreign companies – have not been ruled out, either.

S-E Banken appears to have tha greatest urgency, not least because its big share of Swedish krona and other currency trading makes it more vulnerable than the others to a single European currency.

But just who does e deal, and when, remains to be seen. "Somathing will happen – but bow it will go is not clear yat," says Mr Thorne.

Swedbank – known domestically as Sparbanken Sverige – has sought a merger with Föreningsbanken, the fifth-largest bank *Tony Andrews*

INTERVIEW

Tough issues on the menu

Mr Göran Persson, 47, appeared to relish the step up to prime minister last March from his previous post as finance minister.

The absence, in Bosnia, of Mr Carl Bildt, the forceful leader of the conservative opposition, helped leave the stage clear for Mr Persson quickly to make his mark as a confident, unchallenged leader of the government.

But tough issues are mounting. Strong public feeling against the European Union is narrowing the government's room for manoeuvre on the issue of potential Swedish membership of European monetary union. Domestically, Mr Persson's pledge to halve unemployment by the year 2000 looks rash.

Mr Persson discussed these issues with Hugh Carnegy:

Question: The government appears to have adopted a "wait-and-see" attitude to Emu in the face of strong opposition to Swedish membership. What is the position?

Answer: It is not a "wait-and-see" attitude because that [sounds] reluctant and very passive.

We want time to have a discussion with the Swedish people, because this is one of the biggest decisions I have participated in and therefore you must have very good support among the electorate.

I said when I was finance minister that from an economic perspective it is easy to see the advantages of membership of a monetary union. That is still my opinion. But it is not only a question of the economy. It is a question about the whole nature of the EU. That is why we need a year to discuss, to learn, to debate, to investigate [the issue].

Is it really possible that opinion can change and Sweden will seek to join Emu from the start in 1999?

Of course it is. We haven't said "Yes" and we haven't said "No". Our policy is constructed so that the Swedish parliament can say "Yes" if we want to in autumn 1997.

You must remember Sweden has had a rather negative opinion about the EU. That is not because we are negative to European co-operation and integration. It is because at the same time we became members of the EU we implemented the harshest programme in the public finances in any OECD (Organisation for Economic Co-operation and Development) country ever. That harmed the Swedish people's belief [in the EU].

But now we have a turning point. The economy is going better and better. The public finances are under control, inflation is low, interest rates have come down and growth is beginning to pick up. And who knows, then, anything about opinion next year.

Your promise of a 50 per cent cut in "open" unemployment by 2000 has been put in doubt by finance ministry projections suggesting it will not happen. Can you fulfil the promise?

The task is that we have to do better than today in terms of economic performance. It means we must create 15,000 more jobs every year to the year 2000. That is not impossible, especially if you take into account the fact that since I was finance minister we have had very cautious projections.

If we have 0.5 per cent higher growth annually than expected, then we will meet this target, or be close to it. It will not be easy, but it is not impossible.

What if you halve open unemployment – but only by increasing the numbers in government labour market schemes?

Of course it would be a failure if we solved the open unemployment problem that way. We don't want to do that.

It is genuine growth – new jobs in the economy – that is our ambition. But if you have growth which does not give new jobs – and you have seen examples of that in Europe – then you have to discuss more of education.

But the main strategy is to underpin growth in the economy and there you have one process which is much more important than any other and that is the wage formation process. It is up to the social partners to handle that.

What about the need for more general flexibility in labour markets?

Without flexibility, you won't be competitive. But what does flexibility stand for? Does it stand for a wider gap in income distribution, or does it stand for a better educated workforce prepared to take on new tasks, new jobs?

I think the latter way is the Swedish way – to be in the front line preparing our workforce for new, difficult tasks.

I don't believe that it is possible to combine the European welfare model with a flexibility where the gap in income distribution will be widened. To stick to the welfare models that have been built up in northern Europe, you must have a workforce that is very well educated and a workforce that is in work and is well paid.

If you lose that battle, then you have only one other thing to rely on and that is to let salaries go down and to compete with those salaries. To be cheaper than the cheapest. If you start that spiral, you will also see that the tax basis will be thinner and thinner, then you will have smaller and smaller resources for the welfare society. That is not our kind of flexibility.

Göran Persson: 'We must create 15,000 more jobs every year to the year 2000. That is not impossible' Picture: Pica Pressfoto

Ericsson factory: a strong local telecoms industry has helped high-tech development Picture: Tony Andrews

■ **High-tech industries:** by Hugh Carnegy

Computer services sector sets pace

Foreign investors have been queueing up to back newly-listed companies

When news broke in early September that a British fund manager called Peter Young had been suspended by Morgan Grenfell, Deutsche Bank's subsidiary, because of multiple irregularities in his unit trust portfolios, the shock waves reverberated deep into Scandinavia.

Included in the funds were shares in a large number of little-known, often unlisted, high-technology companies in Norway, Sweden and Finland. Mr Young was a leading enthusiast – and provider of vital development capital – for these companies.

For small Swedish companies such as Pricer, Trio and Frontec, which featured in the funds, it was unsettling suddenly to be associated, however indirectly, with the Young scandal. But for those who follow the sector in Sweden, there was little to question in the fallen fund manager's essential faith in the local high-tech industry.

In the past few years, Sweden has seen a spurt of new high-tech companies, mostly in software and computer services, that is in sharp contrast to the country's traditional record of relying on big, long-established multinationals for its industrial strength. Such has been the development that McKinsey, the US consultancy group, singled out the computer services sector as one of country's most internationally competitive industries in a study it published last year on the Swedish economy.

The crop of high-tech companies, characterised by their swift penetration of international markets, spans a wide variety of products, from antennae for mobile phones made by Allgon, the now well-established, Stockholm-based company, to Pricer, a company launched three years ago which makes pricing systems for retailers.

But the biggest area of growth has been in software. Perhaps the leading name today is WM-Data which produces a range of business and administrative software services for large organisations. Turnover at WM-Data has grown from SKr900m in 1992 to SKr3.25bn last year and SKr2.4bn in the first six months of this year. It has a profit margin close to double figures and has attracted investment from, among others, Sweden's big Wallenberg industrial empire.

A clutch of other software companies are working to follow in WM-Data's footsteps. Some, such as WM-Data, are already listed on the Stockholm stock exchange. They include IBS, also well-established today developing information systems for IBM computers, and Enator, an IT specialist spun off from the defence contractor Celsius and listed in June this year.

Other ambitious companies, most of which are lining up for bourse listings if they haven't already floated, include Scala, already a leading international producer of accounting and business software, and Trio, which makes communications software.

One of the features common to most of these companies is the high proportion of foreign capital they have attracted to aid their development – not least from Peter Young. This led to some fears that the scandal that erupted over his funds could lead to reduction in this valuable capital flow. Bnt analysts say this is unlikely.

Certainly there was no shortage of investors to back the latest bourse issue, by a company named Intentia, in early November. The SKr385m issue by Intentia, which snpplies integrated business systems and is a competitor to IBS, was no less than 25 times oversubscribed.

The big question is, why has Sweden been so successful in producing these companies?

The answer seems to lie in a combination of factors. An important fundamental reason has been the high levels of education in Scandinavia, allied to the very high penetration of personal computers. In Sweden, a strong local defence and telecommunications industry has also helped to foster spin-off commercial high-tech development.

Mr Richard Kramer, a London-based analyst for Goldman Sachs who follows Scandinavian technology stocks, sees the large degree of outsourcing by big Swedish organisations as another factor, creating demand for small service companies. He adds: "A real blessing in disguise for Swedish high-tech companies is the tiny home market. Pretty soon these companies have to develop an export orientation or they cannot grow to be big businesses."

One example of this is Frontec, which makes systems to link different computer networks. Although it had turnover in 1995 of just SKr573m, it is established in the US, the Netherlands, Norway, Denmark, the UK and Singapore. "Our market is the multinationals and they want you to be international," says Mr Carl-Erlan Schröder, the company's information chief. "As many of them are expanding in the Far East, we have to be there too."

One more vital factor in the high-tech spurt was the availability of capital. Much of this has come from foreign investors looking for growth opportunities. But venture capital sources in Sweden have also grown rapidly in the past five years.

"Today it is as easy to raise money in Sweden for our kind of company as it is in California," says Mr Lars Klingstedt, chief executive of Trio, which plans a stock market listing next year. "That has been the missing link."

In terms of stock prices, most investors have so far done well out of their Swedish high-tech bets. Some companies, such as WM-Data, have already established a solid profits record as well. But many of the companies are still in their development stage: yet to produce earnings. The next test for the young Turks of Swedisb industry is to show they can fulfil the considerable promise they have so far shown.

■ **Stockholm's Olympics bid:** by Greg McIvor

A mouthwatering opportunity

Hurdles remain before Sweden can count on an Olympics-led tourist bonanza

With the Atlanta Olympics still fresh in the memory, the 2004 Games may seem a long way off. Not to Stockholm, though, which is already running at full tilt to become host city in eight years' time.

Should it successfully outpace 10 rival bids, the Swedish capital will stage the summer Games for the first time since 1912.

Competition from the likes of Rome, Athens, Cape Town and St Petersburg is likely to be fierce, bnt ringside observers suggest Stockholm's polished presentations to the International Olympic Committee have given it a strong chance at least of making the shortlist of four or five finalists to be announced in March.

The Games would be easily the largest event held on Swedish soil. Mr Olof Stenhammar, the businessman leading the campaign, describes them as "Sweden's largest export order ever" – a mouthwatering opportunity for the country's big companies which have pumped almost SKr50m into Stockholm's campaign coffers and pledged more if the bid bears fruit.

Olympic business involvement is led by the Wallenberg family, Europe's most powerful corporate dynasty, which controls a large proportion of Sweden's leading blue-chip corporations. Wallenberg-dominated companies such as Ericsson, the telecommunications group, Astra, the pharmaceuticals group, Electrolux, the white goods supplier, and Stora, the forestry group, account for the lion's share of total corporate financing to date.

Mr Stenhammar, founder and chairman of OM Gruppen, the derivatives exchange operator, believes the Games would generate turnover of SKr30bn, with SKr8bn-SKr12bn accruing as tax revenue. The government has provided a SKr2.5bn subsidy and a full guarantee to cover any deficit in the SKr12bn budget, while the Games are predicted to generate 40,000 new jobs.

The event would also be a boon for the Swedish tourist industry, already enjoying a revival in recent years. A reduction of value-added tax on tourist purchases from 25 per cent to 12 per cent between 1992 and 1993, coupled with a 30 per cent depreciation of the krona against the D-Mark in the same period, have led to a strong surge in visitor numbers. Total guest night numbers grew from 6.1m in 1993 to 7.9m last year, a 30 per cent increase. This yielded revenues of SKr100bn, corresponding to 3.2 per cent of gross domestic product.

But several key hurdles remain before Stockholm can prepare for an Olympic-induced tourist bonanza. In particular, Mr Stenhammar's enthusiasm for bringing the Games to Sweden is far from universal among his countrymen. An opinion poll shortly after the Atlanta Games showed 52 per cent of Swedes opposed Stockholm's bid, with just 32 per cent in favour. The figures reflect fears of new costs to taxpayers after five years of welfare cuts.

Three of the seven political parties represented on Stockholm's city council oppose the Games, although a majority of council members support the project.

"Taxpayers' money should be used for schools and hospitals," says Mr Jan Björklund, leader of the opposition Liberal party. "If we stage the Olympics here, business should foot the bill."

The event is also unpopular with environmentalists. Despite attempts by organisers to highlight the bid's eco-credentials, environmentalists believe Games-related development would adversely impact on the city's green areas. In particular, the plan to construct the main Olympic stadium on the site of a rubbish dump near the city centre has been attacked as unsound.

Given the popularity of sport in Sweden, where 3.4m people out of the 8.8m population belong to a sports club, support for Stockholm's candidature might be expected to be higher. However, many sports clubs are suffering severe financial problems this year after seeing their grants from the Swedish Athletics Association pruned back because of losses incurred at the world athletics championships staged in Gothenburg in 1995.

Mr Stenhammar dismisses the risk of a budget loss as negligible, suggesting that all summer Olympics have made a profit since 1984. "For the taxpayers in Sweden, it can never be a loss. Yon can never run the Olympic Games that badly," he asserts.

Nevertheless, ha is aware that persuading a sceptical public will be a tough task. Not least, he will need to counter a widespread view that bidding for the Games is a waste of money following six abortive, and latterly ignominious, attempts to secure the winter Games.

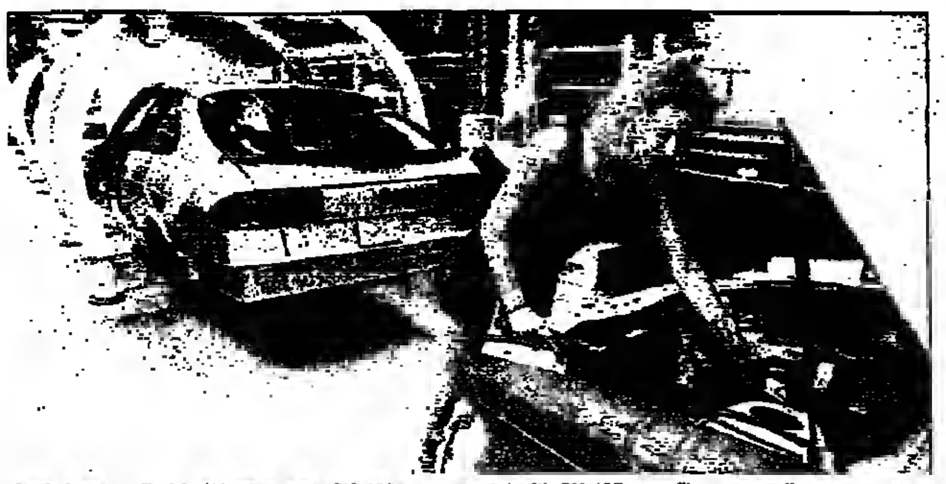
He and his colleagues are pinning faith on a forthcoming marketing campaign featuring a range of illustrious Swedish sporting names, including former Wimbledon tennis champions Stefan Edberg and Björn Borg, Ingemar Johansson, the former heavyweight boxer, and Ingemar Stenmark, the former slalom skier.

Following the 1912 Stockholm Games, Baron Pierre de Coubertin, founder of the modern Olympic movement, wrote: "Never has a Swedish summer been more glorious." Organisers of the current bid will be hoping the IOC takes a similar view in its final adjudication next September.

Forestry group Stora is one of the leading blue-chip companies supplying corporate finance

Export industries: by Greg McIvor

Strong krona curbs profits



Saab factory: first-half losses were SKr428m, compared with SKr195m profit a year earlier Tony Andrews

Margins have borne the brunt of the storm rather than market shares

After two years of soaring profits, driven by a big depreciation in the value of the krona, Swedish exporters have been hit by a currency boomerang in 1996.

Earnings at many of Sweden's top export companies have suffered from a 10-12 per cent strengthening of the krona against leading international currencies since the turn of the year. This, added to weaker economic conditions in Europe this year, particularly in Germany, has punched holes of between 15 and 70 per cent in pre-tax profits

The negative trend has been compounded by a sharp rise in unit labour costs following a pay round which gave Swedish industrial workers average increases of 6 per cent – the highest among leading nations in the Organisation for Economic Co-operation and Development this year.

Among the most exposed sectors have been forestry, mining and steel. All have felt the added squeeze of falling raw materials prices. Forestry, accounting for nearly a fifth of Swedish export earnings, enjoyed rapid growth in 1995 amid buoyant pulp and paper prices. But this year a steep decline in pulp prices caused by weaker demand and oversupply has been coupled with adverse currency effects.

Nine-month profits at SCA, the country's largest forestry group, slid 41 per cent to SKr2.5bn. The company attributed 23 per cent of the fall to the stronger krona and the rest to sharp price falls in key paper grades triggered by lower pulp prices. SCA's main Swedish rival, Stora, fared worse; its profits tumbled 69 per cent.

Prices of steel and metals have also fallen heavily. "Profits at Trelleborg, the mining, metals and rubber group, dropped 74 per cent in the first nine months on sales down 3 per cent. Lower copper prices and the stronger krona were to blame. Avesta Sheffield and SSAB, Sweden's two large steel producers, suffered similar reverses.

Elsewhere, Electrolux, the household appliance manufacturer, suffered a 20 per cent fall in profits and an 8 per cent decline in sales in the first nine months. Even Atlas Copco, one of Sweden's few large exporters to lift profits this year, had a big one-time gain to thank for most of its 12 per cent rise.

Sweden's National Institute of Economic Research estimates the appreciation of the krona will result in a 15 per cent increase in relative costs to exporters from the start of 1995 to end-1996. The effect is clearly visible in projections by the Swedish Trade Council that double-digit export growth in 1994 and 1995 will slow to 2 per cent this year.

Meanwhile, a productivity surge following the recession appears to have run out of steam, with some economists suggesting scope for further gains is limited in the medium term.

Ms Lena Hagman, economist at the Federation of Swedish Industries, says productivity growth will be zero this year. "Companies face a profitability problem in the coming years since we expect the krona to stay strong and unit labour costs to keep rising," she says.

Paradoxically, Sweden's balance of trade surplus this year of about SKr102bn in the first nine months, or 7.6 per cent of GDP, is one of the highest in the industrialised world.

But economists stress the excess is almost entirely due to two rapidly growing sectors: telecommunications and pharmaceuticals.

The two main companies here are Ericsson, the telecommunications group, and Astra, the fast-growing drugs company. Both have felt the impact of the krona's strengthening, but their sales are growing at such a rate that they have been able to overcome it. Ericsson's order bookings have risen 22 per cent this year to SKr96bn. Astra has seen its sales grow 5 per cent, driven by its blockbuster anti-ulcer agent Losec.

The average fortunes of Sweden's export sector are better reflected by the likes of SKF, the world's leading supplier of rolling bearings and commonly seen as a bell-wether of prevailing economic conditions through its multi-market presence. Its profits almost halved in the third quarter as prices fell, demand softened and the krona firmed. So far this year the fall has been 30 per cent.

Evidence of the downturn is clearly seen in the motor industry, where Volvo, Saab and Scania have all experienced sagging earnings this year. Weak performance in Volvo's flagship car division was exacerbated by losses from truck production – the main engine of Volvo's profits in the past two years.

At Saab, first-half losses were SKr428m, compared with a SKr195m profit a year earlier. Meanwhile, truck maker Scania saw its margins fall from 15 per cent to 10 per cent, due to currency effects and production disruption caused by the introduction of its new 4-series truck.

Overall, export sales have held up much better than profits, indicating that margins have borne the brunt of the storm rather than volumes and market shares. Sandvik, one of Europe's top leading engineering companies, reported this month that it had maintained a 15 per cent operating margin, despite an 18 per cent drop in profits.

In the longer run, however, higher wage costs and a strong krona are bound to hurt market shares. Mr Mauro Gozzo, chief economist at the Swedish Trade Council, warns of a risk that high wage increases will land Swedish exporters in the same cost difficulties as in the 1970s and 1980s. The difference today is that devaluation is no longer the panacea it was.

Energy sector deregulation: by Greg McIvor

Frantic scramble for opportunities

Analysts believe the distributors may now face far-reaching rationalisation

Deregulation of Sweden's electricity industry has energised a traditionally staid sector. Since full liberalisation on January 1, power generators have indulged in a frantic scramble to secure their market positions and harness new opportunities.

A dizzying round of deals has seen suppliers queuing up to buy smaller generators and distribution companies. The restructuring has been spiced by the spectacle of some rivals buying into each other in the battle for supremacy. While the sheer pace of change took some analysts by surprise, all agree that a measure of rationalisation was inevitable.

Liberalisation did not just open the Swedish market; it formed a new Nordic market with neighbours Norway and Finland, already deregulated, multiplying the growth potential for all participants.

Predictably, the prospect of pan-regional pickings has stirred interest from foreign utilities. Electricité de France, the French power supplier, and Imatran Voima (IVO), the Finnish state-owned producer, have both taken big stakes in Swedish power generators, joining already established non-Swedish groupings such as Statkraft of Norway and Preussen Elektra of Germany.

Earlier this year, EdF won a battle with Sydkraft, Sweden's largest independent power generator, for control of Graninge, the country's sixth-largest supplier. The deal aroused particular interest because of EdF's 10 per cent shareholding in Sydkraft (later divested to Statkraft), and Graninge's substantial forestry operations – with which EdF has no synergy.

However, EdF made clear its overriding motive was to gain experience of electricity deregulation in anticipation of wider liberalisation in Europe.

Meanwhile, IVO – facing competition in Finland from Vattenfall, Sweden's state-owned dominant supplier – has itself gained a firm foothold on Swedish soil.

It took a 51 per cent holding in Gullspangs Kraft, a large regional electricity producer, then signed a strategic alliance with Stockholm Energi, Sweden's third-largest supplier. Backed by its new Finnish owner, Gullspangs later bought Skandinavisk Elverk, another Swedish power producer and distributor, for SKr4.2bn.

Conversely, Vattenfall, with 50 per cent of the Swedish market, sees its main opportunities outside Sweden – in Scandinavia and the Baltic republics of Latvia, Lithuania and Estonia. "For us, it is not a Swedish market any more but a Nordic and Baltic market," says Mr Carl-Erik Nyquist, Vattenfall chief executive.

The company owns two large distribution companies in Finland, supplying power to two of the country's biggest corporations: Enso, the pulp and paper group, and Outokumpu, the metals group. It is also planning to build a gas-fired power plant in Finland to meet its generation requirements there.

A further opportunity to strengthen its Finnish presence is set to arise next year, when the Helsinki government privatises a 50 per cent stake in IVO, an offering likely to generate SKr8bn-11bn.

But Vattenfall's concurrent drive to expand in Norway and Denmark has suffered several hiccups. Bergen Lysverker, Norway's second-largest electricity distributor, was recently sold to BKK, a Norwegian competitor, despite the fact that Vattenfall's SKr2.8bn offer was higher. And similar political problems were encountered in Denmark. Overtures by Vattenfall to expand its 10.5 per cent stake in Nesa, Denmark's second-largest electricity distributor, foundered when the local authority which controls Nesa declined to sell to a non-Danish grouping.

In Sweden, Vattenfall's prime focus is on improving its distribution network. It is one of four companies currently jockeying for the right to purchase Orebro Energi, a medium-sized municipal power distributor, in a deal likely to be worth more than SKr2bn. Earlier this year it bought Nyköping Energi, another municipal distributor, for SKr535m.

Post-deregulation restructuring has hitherto been chiefly concentrated on the generators; but analysts believe the distribution side is facing the most far-reaching rationalisation.

Some 20 or so distributors have already been snapped up by large power generators but more than 250 transmission companies still remain, mostly small enterprises owned by cash-strapped municipal authorities. Analysts suggest only about 50-100 will be left by the end of the decade.

"I don't think it is optimal with [so many] companies on the distribution side. Every day we see these companies either being bought or sold, or merging, and the process is not finished yet," says Mr Nils Andersson, managing director of the Swedish Association of Power Producers.

Further integration is also likely on the electricity bourse set up at the start of the year by Sweden and Norway – said to be the first of its kind in the world.

About 15 per cent of the region's power production is traded at spot rates on the market, a respectable share after less than a year of full operation. The exchange has plans to embrace Finland and ultimately Denmark, as well as to offer a wider range of electricity trading instruments.

But pre-launch expectations that the market would bring 5-10 per cent lower electricity prices for consumers have proved premature. Spot rates have spent much of the year well above turn-of-the-year levels, amid a prolonged dry spell which has pushed up hydro-power prices. Meanwhile, end-prices to consumers have actually risen about 3 per cent due to Swedish government tax increases. A similar rise is planned next year.

Swedish competition authorities are reviewing pricing policy in the wake of complaints from the public. Indeed, consumers have failed to see any perceivable benefit from deregulation. It was intended that individual homeowners would be able to select the power supplier of their choice, but their hands have in effect been tied by the prohibitive SKr500-SKr1,000 cost of installing new metering equipment.

"The incentives for shopping around have been significantly reduced," says Mr Per Axelsson, utilities specialist at Gemini Consulting in Stockholm. "There is a big disappointment from the retail sector that deregulation has not improved their situation."

Mr Axelsson believes consumer pressure on distributors will result in downwards pressure on prices. Others are more sceptical, given the absence of a direct price regulation mechanism.

One important barrier could be lifted if moves to develop cheaper metering equipment bear fruit. But in the meantime, given the state's penchant for higher energy taxes, perhaps the best consumers can expect is a flatter upwards pricing curve.

Nuclear power

Debate rages on... and on

Few issues arouse such passions in Swedish politics as the future of the country's nuclear power industry.

Ever since the first of 12 atomic reactors was built in the 1970s, debate has raged over their safety and status. Under a referendum in 1980, rubber-stamped by parliament a year later, Sweden is committed to dismantling its nuclear power capability by 2010.

But as the deadline nears, the way ahead seems increasingly unclear.

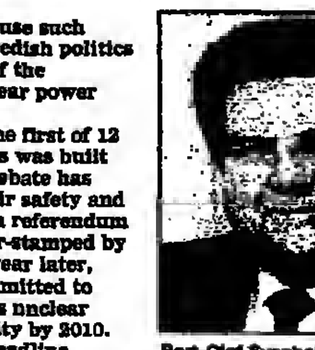
On one hand, environmental arguments have been diluted by the realisation that scrapping Sweden's nuclear capability – equivalent to half of national energy needs – would necessitate the burning of more fossil fuels because any extension of hydro-power is deemed politically impossible.

This would contravene Swedish commitments on greenhouse gas emissions.

On the other hand, industry is voicing increasingly vociferous opposition to the higher electricity bills which a phase-out would entail.

Swedish manufacturers, long-time beneficiaries of cheap power, fear a key competitive advantage will be wiped out overnight if abolition goes ahead.

In addition, public opinion appears to be swinging away from the imminent phase-out line. A recent poll suggested more people now want to retain nuclear reactors during their productive lifespan, rather than shut them ahead of time.



Bert-Olof Svanholm: demanded preservation of nuclear power

In the middle is the government. The ruling Social Democrats have long been split on the nuclear issue, but ministers now insist the referendum outcome must be respected.

Cynics have suggested this owes more to its reliance for parliamentary support on the Green-inclined Centre party rather than any deep-seated SDP belief in decommissioning: the Centre regards the referendum decision as a sacred cow. The government is currently in talks with opposition parties to find an acceptable way of commencing the closure process.

A prime aim for Mr Anders Sundström, industry minister, had been to preserve a full cross-party consensus on such a delicate topic. But this proved impossible. The government dropped the opposition parties, the Moderates and the Liberals, from the talks after they refused to countenance any imminent phase-out.

An apparent concession from the government to start decommissioning in 2000, rather than 1998 as ministers had originally proposed, has already been rejected by both groupings.

The depth of opposition to a phase-out was illustrated this month when Mr Bert-Olof Svanholm, chairman of Volvo and head of the Federation of Swedish Industries, penned a joint newspaper article with the leaders of Sweden's two biggest trade unions demanding the preservation of nuclear power. The trio warned that investment, jobs and Sweden's international competitiveness were on the line. "If we close one or more nuclear plants on political rather than safety grounds it will send a message that will impact on our investment decisions and will strike at the heart of Swedish welfare like a boomerang," they wrote.

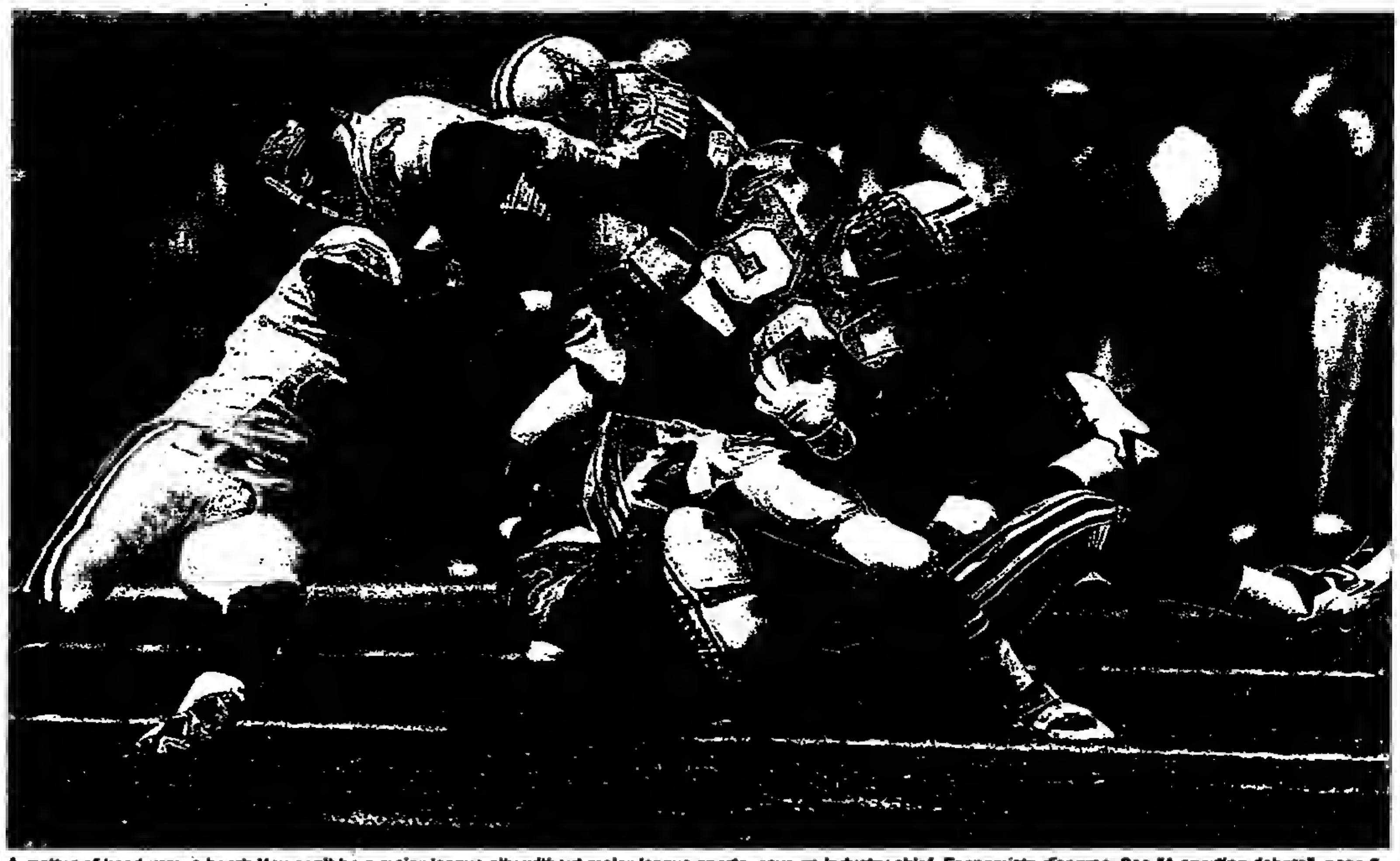
Swedish industry has even offered to pay the cost of replacing two Chernobyl-type nuclear plants in Russia and Lithuania if the government commits itself to maintaining "safer" Swedish plants. But given Stockholm's seeming determination to start the phase-out, the gambit looks destined to fail.

Greg McIvor

NORTH AMERICAN BUSINESS LOCATIONS

Media revolution redraws the map

It is the age of the information economy, and the dynamics have totally changed the regional picture. Richard Waters reports



A matter of head versus heart: You can't be a major league city without major league sports, says an industry chief. Economists disagree. See "A sporting debate", page 6

Out in the Badlands of the Dakotas, the telephone lines are humming.

Like some other remote, rural areas of the country, a communications revolution and a shift in employment patterns have combined to bring new jobs to the area. For companies that operate (or are thinking of investing) in the US, the results are instructive.

The communications revolution in question has enabled larger volumes of information to move around the country at ever lower cost. Activities that rely on information flows are springing up thousands of miles from the traditional big city centres where they were once based.

The change in job patterns, meanwhile, bas involved a surge in a range of marketing and sales activities as an increasingly competitive economy forces companies to devote more effort to customer relations. New jobs for bank clerks have dried up: new jobs for telephone sales reps have exploded.

Taken together, those forces have fuelled one of the untold relocation stories of the 1990s – the spread of telephone calling centres across the country. States like North and South Dakota have been among the beneficiaries of the shift, says Phil Schneider, a relocation consultant at Deloitte & Touche. "Grand Forks is going gangbusters," he says.

The rewiring of the continent, and the growing importance of the so-called "information economy", have become important both to the pattern of US economic development and its rate of growth.

Such forces are also helping to stimulate the next wave of foreign investment in the country. The clearest example so far: a move last month by British Telecommunications to buy MCI, the country's second-biggest long distance telephone company and largest carrier of Internet traffic.

At $20bn, this is the largest foreign acquisition of a US company ever attempted. But its significance goes much further than that. It also points to a growing foreign investment in areas where the US has shown technological and marketing leadership.

Among the more notable aspects of a recent wave of foreign takeovers in the US has been the acquisition of some of the country's leading biotechnology companies.

The BT/MCI case also seems to demonstrate a new openness in Washington to greater foreign involvement in industries of considerable national significance. The Federal Communications Commission has yet to rule on the bid, but has made clear that it is unlikely to stand in BT's way – provided the UK telecommunications market is equally open to foreign competition.

The BT bid for a slice of the US telecommunications market is just part of a new influx of capital in the 1990s, as more foreign companies have looked to gain a position in the big and steadily growing US economy.

Foreign direct investment, which flagged during the mild recession of the early 1990s, has rebounded. Such investment reached nearly $55bn last year, up from $46bn in 1994 and only $14bn in 1992. Such figures include all investments of more than 10 per cent in a US company.

The boom in foreign acquisitions has extended into this year, guaranteeing another increase in overall foreign direct investment for 1996. During the first nine months, foreign buyers announced nearly $38.5bn of acquisitions, some $11bn more than the same period the year before, according to Mergerstat, which records merger and acquisition activity.

That growth reflects the popular view in boardrooms that a foothold in the large US market is an essential part of a global business strategy. But it also reflects the greater competitiveness achieved by US industry in recent years.

Two examples make the case. One is the automobile industry, the most potent symbol of the US's manufacturing renaissance. Japanese companies, which hold a 23 per cent share of the US new vehicle market, now produce most vehicles they sell in North America in locally based transplant factories – and have become big exporters from the US as well.

The second example is the success Virginia has had in snaring three big microchip plants in 18 months. Competition for such investments is now international.

The dollar's decade-long slide against the yen has certainly contributed to this picture, helping to fuel an export-driven boom in areas like the industrial Midwest. But the revival of US competitiveness is based on more than this.

Strong capital investment and an improvement in labour relations have contributed to a steady advance in productivity. For the US economy as a whole, recorded productivity growth, at below 1.5 per cent a year, has been frustratingly slow during the current expansion: most economists maintain, however, that this reflects a failure to measure productivity gains in the service sector. There is less dispute about the rebound in the manufacturing industry, where productivity has been growing at an average of 3 per cent a year in the 1990s.

The steady economic expansion of the 1990s, however, is beginning to throw up new problems for companies looking to move operations in the US. Unemployment rates in most regions have fallen to a point where the scarcity of labour now tops the list of many company's concerns.

The problem is particularly acnte for a range of technical skills, from computer programmers to traditional craftsmen like tool and die makers. That, in turn, is beginning to prompt a hunt overseas for the sort of skills that cannot be found locally. Daniel Meiland, chief executive of Egon Zehnder, an executive search firm, says one Wall Street bank now recruits most of the mathematicians for its derivatives department in India.

In the past, Americans have demonstrated a willingness to move across the country in pursuit of jobs. For now, though, with most regions prospering, the flow has slowed noticeably. True, Western and Rocky Mountain states like Nevada, Utah and Idaho are still sucking in workers at a considerable pace, and business-friendly states in the Sun Belt, like Georgia and Texas, continne to add jobs at a faster rate than the national average.

But growth in the Midwest, and the belated recovery of the North-East and southern California, have slowed the population outflowe from those areas. Indeed, with its influx of immigrants – legal or otherwise – California has a growing labour pool that cannot be matched by many states.

With skilled labour in short supply, the quality of education and training has risen quickly to head the list of concerns of many corporate executives. And it is not only businesses looking to relocate around the country that will be fighting for their share of the available pool of talent.

The country's three big automakers, for instance, are seeing the armies of workers they hired in the 1960s reach retirement. To replace them, they are looking for tens of thousands of recruits – and many of them will be college graduates, or others who can show flexibility and adaptability.

With typical American free-market bravado, many economists and businessmen maintain the market will take care of such stresses: businesses investment in training really only takes off when qualified labour is in short supply.

Perhaps. But public schooling in many areas has suffered from a prolonged lack of investment. In the new information economy, that is a failure that could have an important bearing on future competitiveness.

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Canada offers a great deal more than scenic settings, say local businesspeople: for one thing, there are the cost advantage over the US

■ **Canada:** by Bernard Simon

Northern attractions

Structural changes make for a much improved business climate

Stuart MacKay, a specialist in industrial relocation at accounting firm KPMG's Vancouver office, says the trouble is Canadians are "too shy by half about blowing our own horn".

A KPMG study covering seven industries concluded last year that Canada had an average cost advantage of 6.7 per cent over the US. The latest study, due ont later this month, is expected to show the lead has widened thanks to a steep fall in Canadian interest charges.

In spite of such evidence, Canadians are convinced their country gets less than its fair slice of direct foreign investment. Canada's share of global investment slipped from 11 per cent in 1980 to 5 per cent in 1994. Echoing Mr MacKay's complaint, e federal government official told a local newspaper recently that part of the problem was that "we're not getting our message out".

Canade plans to start blowing its horn more loudly with the recent creation of Investment Partnersbips Canade, a government agency jointly controlled by the departments of industry and foreign affairs.

The new egency aims to zero in on companies planning an investment in North America, belping them find suitable locations and local partners in Canada. It will initially focus on five countriee – the US, tbe UK, France, Germany and Japan.

Canada's business climate is much improved in the past three years. Healthier puhlic-sector finances coupled with low inflation and a strong balance of payments have contributed to a steep drop in interest rates, a buoyant currency, and e bullish husiness outlook.

Canadian banks charged a prime lending rate of 5.5 per cent in late October, compared to 8.25 per cent in the US. Canada's inflation rate, currently running at little more than 1 per cent, is balf the US rate.

After five years of erratic growtb hased largely on exports to the US, the economy has recently shown signs of a more hroad-based recovery. Growth in real gross domestic product is expected to accelerate to 3-4 per cent in 1997 from less than 2 per cent this year.

Underlying tbese trends are significant structural changes. Rationalisation, privatisation and contracting-out have become buzzwords in the public and private sectors, creating numerous opportunities for foreign and domestic companies.

For instance, a growing number of municipalities are turning their water treatment and distribntion systems over to private enterprise. Several UK, US and French water companies have set up Canadian subsidiaries and joint ventures in the past year.

Lahour prodnctivity bas improved markedly. According to the KPMG study, much of Canada'e advantage over the US is due to lower labour costs.

Trade union power bas ebbed. Statistics Canada estimates that 0.14 per cent of working time was lost to strikes and lockouts in the first six montbs of 1996, down from 0.17 per cent in 1990. Although this was well above 1995's record low of 0.05 per cent, it was dne largely to a single stoppage – a five-week strike by Ontario civil servants.

A highly-skilled workforce has become one of Canada's most potent selling points.

Honda, the Japanese carmaker, earlier this year chose its plant at Alliston, Ontario, as the top-quality assembler of Civic models among 10 similar plants around the world.

On a smaller scale, Cisco Systems, tbe California-based maker of telecommunicetions switching and ronting products, bas invested C$2m in a facility in Halifax, Nova Scotia, to train up to 300 engineers a year.

Mr Bob Singleton, Cisco Canada's national eupport manager, says the company was drawn to Halifax by the co-operative attitude of the provincial government, a local university and other technology companies.

The government pald to renovate the building where the training centre will be housed. The Technical University of Nova Scotia set up a new master's programme in inter-network engineering, and several other companies are partners in the venture. "It's a very technology-aware province," Mr Singleton says.

The disappointing influx of new investment to Canada cannot be entirely blamed on foreigners' ignorance of these advantages.. Existing and potential investors continue to have some significant concerns.

High personal taxes are near the top of the list, making it difficult to attract expatriates to Canada without hefty top-up allowances.

A married person living in Ontario with two children and a taxable income of C$100,000 can expect to pay direct federal and provincial taxes of about C$37,600 a year. A raft of indirect taxes adds to the burden, including a 7 per cent federal goods and services tax, an 8 per cent provincial sales tax and hefty property taxes.

Companies still complain about excessive regulation in many sectors. The ten provinces have made only slow progress in lowering the panoply of non-tariff barriers (such as packaging standards, procurement preferences and trucking regulations) that inhibit a free flow of trade within Canada.

Political jitters have unsettled prospective investors in Quebec. The francophone province's secessionist government has sought to reassure the business community by promising not to hold another independence referendum for at least the next three years.

Some of these concerns may ebb in coming years. Unemployment insurance premiums have come down significantly, and several provinces have moved to rein in workers' compensation premiums. More widespread tax cuts are in the offing as government finances improve.

However, even the most sympathetic politicians can do little about Canada's frigid winter. And no matter how attractive the investment climate, Mr MacKay says there is "a natural reluctance", especially among US companies, to set up north of the border.

■ **Mexico:** by Daniel Dombey

Focus on exports

The domestic market remains big, and the middle class is quickly recovering

Mexico's economy has changed since the country's currency was devalued late in 1994. As a result, rationales for setting np operations have altered.

With the country still only slowly emerging from economic crisis, business opportunities centre on export industries and sectors of the economy that are opening up for competition and private investment. The consumer sector is a much longer term consideration.

"Mexico's domestic economy is still far from the levels of 1994, but the country's export sector is dynamic," says Gray Newman, chief economist at HSBC James Capel in Mexico City.

The recession that followed the devaluation pushed gross domestic product down 6.2 per cent in 1995, with almost all the squeeze being put on the domestic sector. Although the economy is recovering this year, with growth expected to reach 4 per cent, Mexican consumers are still suffering. Retail sales for August registered a dip of 0.7 per cent from last year's level, and domestic car sales have only increased 20 per cent this year after being cut in half in 1995.

But if Mexico's domestic market is still too weak to be immediately attractive, the country's export sector has never been stronger. For the first nine months of the year, sales abroad stood at $70bn, 19 per cent more than during the same period of 1995, bringing a surplus of $5.5bn.

Although the peso is at roughly the same level against the dollar as at the beginning of 1996, inflation of more than 20 per cent for the year so far means the currency has appreciated in real terms. Nevertheless, exports remain strong, reaching their highest ever level in September, and the country is not expected to return to a trade deficit until the end of next year.

Particularly important have been the car industry, which accounts for a quarter of all manufacture exports, and maquiladoras, assembly operations with tax privileges. Maquiladoras, which import components dnty free and pay export taxes only on the value added, have increased sales by 20 per cent this year and now employ more than three quarters of a million people.

"For industries without a lot of capital investment, which use a lot of labour or natural resources, Mexico is a competitive base for operations," says Gordon Lee, a technical partner at Price Waterhouse in Mexico City. That often means companies concentrate on maquiladora or other assembly operations.

The chief advantage of such exporting concerns are Mexican wages, always low and now depressed further in dollar terms by the devaluation. Many industrial workers are paid the equivalent of two minimum wages a day, about $6.

But difficulties with regulations and infrastructure often counterwelgb the wage advantage. Setting up a firm can be a labyrinthine process, often taking more than 80 working days to complete all the separate registrations. Even once the company is operating it can be hamstrung by extensive and eccentrically enforced regulations.

Moreover, low wages, poor conditions and the proximity of the US border push average labour turnover for maquiladoras above 100 per cent a year.

In Mexico City itself, setting up operations has become cheaper. The cost of renting premium office space has fallen from about $35/sq m before the devaluation to $28 or less today. Prices for sligbtly lower quality space are even more depressed – the result of half a million square metres of unoccupied space left over from the pre-devaluation building boom.

"You are looking at two or three years before prices get back to 1994 levels," says Pedro Azcue, director-general for Mexico City of LaSalle Partners, a US based real estate firm.

Yet foreign businesses have been moving into the capital, particularly those seeking to take advantage of recent economic reforms. The country liberalised significant parts of its economy during the two years of the administration of President Ernesto Zedillo, and it is those sectors that hold some of the greatest promise in Mexico today.

Mexico's long-distance telecommunications sector has been opened up, with very few restrictions on competition, and hundreds of millions of doilars of investment has come as a result. Altbougb consortiums involving AT&T and MCI look set to split most of the market with the established carrier Teléfonos de México, there are still niches waiting to be filled.

The country is privatising its civil airports, and is awarding concessions to distribute and transport natural gas, previously a monopoly of state oil company Petróleos Mexicanos. In addition, Mexico is in the process of transforming part of its social security system into a framework in which state pensions will be invested by private fund managers. The reform bas already attracted a cluster of foreign firms.

In most of the liberalised areas, competing firms have to be majority-owned by Mexicans. But many interested domestic firms have or would like foreign partners, for technical expertise and financial belp.

The longest-term bet of all is in the country's consumer economy. After the shock of the devaluation, many sectors will take until 1998 or 1999 to recover. The Mexican market remains big, bowever, with a middle class base that is recovering its spending power and a working class that has cut back, but which still buys essentials.

■ The regions: by Gerard Baker

An exceptionally virtuous circle of expansion

Unusually, almost every region in the country is seeing the benefits of growth

It is often observed that the US economy is less a single homogenous unit than a vast and varied continental patchwork of regional economies. Rather than having one unified business cycle, the country has become used to experiencing a succession of interlocking cycles, with the waves of economic expansion moving across the country in a series of ebbs and flows from coast to coast and from the Deep South to the Canadian border.

That picture of a regionally differentiated economic performance has not changed fundamentally in the 1990s. But after five years of almost continuous growth in nationwide output, the expansion has now, unusually, proved durable enough to pull along almost every region of the country in its powerful wake.

In the past the upswing in one part of the country would already be fading as another was emerging from recession. Two years ago, for example, while most of the country was enjoying the full fruits of recovery, the west coast, and California in particular, was still struggling to lift itself from its long recession of 1990-3.

But the picture today is of stable growth in most of the US, even in the once-benighted West. Employment is growing everywhere; earnings are rising at steady rates, raising real personal incomes for the first time in many years. Unemployment, region by region, varies within a remarkably narrow range from a low of just 3.7 per cent in the Great Plains to the highest rate of 5.7 per cent in the neighbouring Rockies. In spite of insecurity and fears of downsizing, from east to west companies are seeing record profits growth and reinvesting much of these profits in new technology and new jobs. Most remarkable of all, there are few indications that this happy confluence of events is likely to change soon.

Within that broad current picture, there are, of course, important long-term secular changes at work, changing the relative strength of different regions. The shift to the sunbelt continues apace. Migration from the northern industrial centres to the warmer climes of the South and West has been hastened by rapid improvements in communications technology, enabling companies to move further and further away from their clients. But the evenly paced nature of the expansion has enabled that shift to continue more smoothly than before – with strong demand for labour even in the old industrial regions, the displaced workers are not usually without work for long.

The North-East remains home to the country's plutocracy, and is still its intellectual powerhouse. The nation's best educational standards are reflected in the highest wages. Average weekly earnings in New England, at $544, are more than 30 per cent above those in the poorest region, the Texas-Oklahoma-Arkansas-Louisana "Oil Patch".

But this year the North-East has experienced a slightly steeper slowdown than the country as a whole. Most employers report a relatively easy labour market, with supply rising in the wake of some big manufacturing redundancies in the last year.

New York continues to enjoy its remarkable renaissance after the troubled years of the 1970s and 1980s. Wall Street has benefited from one of the best bull runs in history, and the city itself could almost be described as thriving. Most striking has been the sharp fall in the crime rate, which has brought new life back to much of the city and helped bolster tourism. Unemployment in New England is still expected to remain under 5 per cent for the next few years, and even in New Jersey, where the rate has in the past been in double figures, it is still no more than 6 per cent.

The Midwest, home of the Rust Belt, is also a transformed locale. The resurgence of the US motor industry – restored to its place as the world's largest car maker – has been the driving force behind much of the revival. Unemployment in the Ohio-Northern Kentucky corridor is at a near record low; and the Chicago area has consistently reported acute labour shortages, especially for the more highly-skilled jobs.

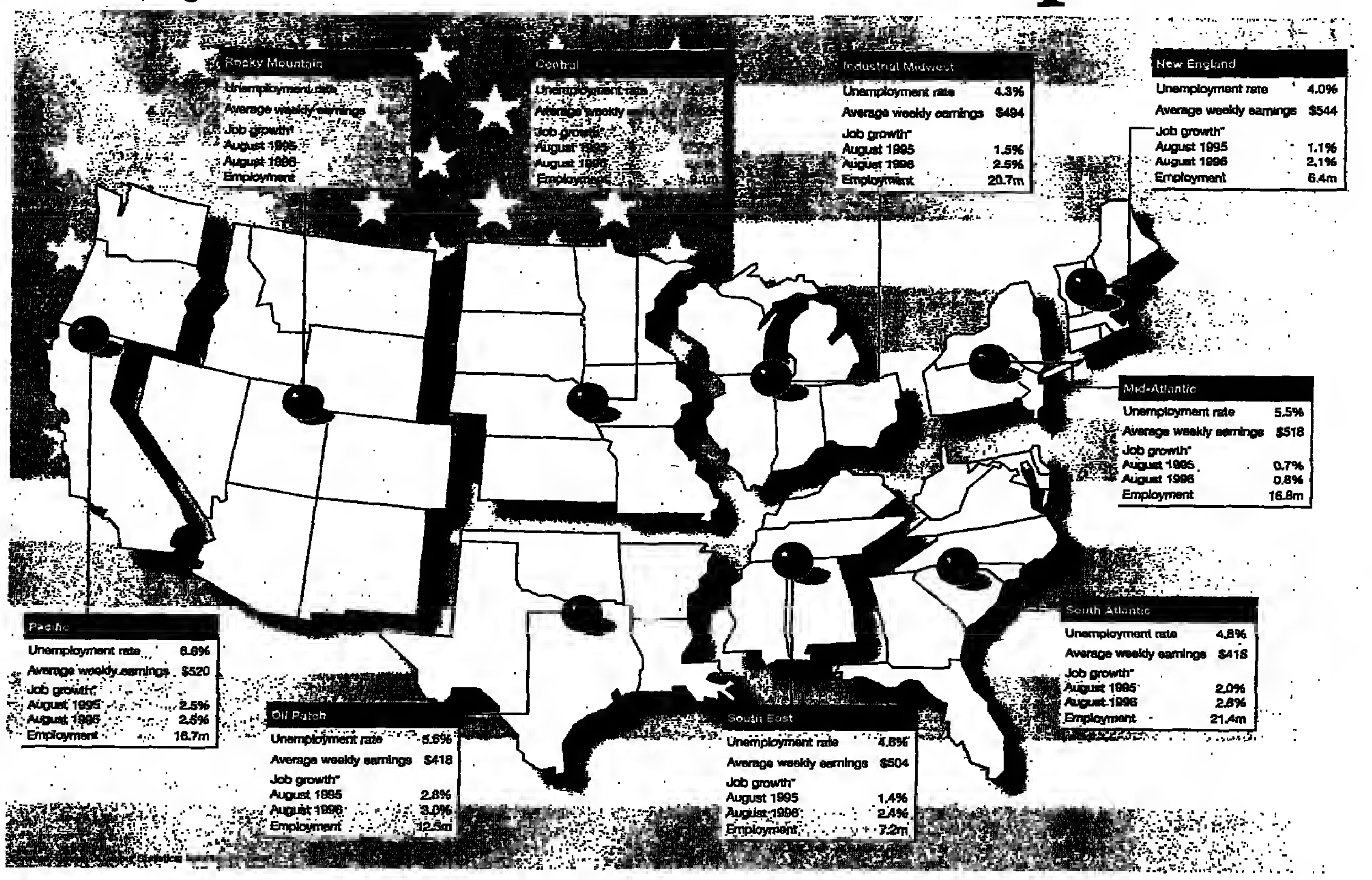
In the South, where job growth has been most impressive in the last few years, the picture of a healthy economy with few inflationary pressures is even clearer. The Atlanta area benefited from a construction boom in the run-up to this summer's Olympic Games, and there are strong indications that the growth is continuing. Florida continues to attract businesses thanks to its climate, its low proportion of non-unionised labour and its strong links with the emerging economies of Latin America.

But if there is is one region of the US that best captures the spirit of the 1990s, it is the Great Plains, the central swathe of the country from Minnesota and North Dakota to Kansas and Missouri. Although agriculture, with its seasonal swings, is the traditional staple of the region, industrial growth here has been among the most impressive anywhere. The area boasts the lowest unemployment in the country. The two states with the very lowest jobless rates – Nebraska and South Dakota, with rates of 2.7 and 2.8 per cent – are neighbours in the heart of the region. All sectors report rates of growth unseen in decades. As one commercial contractor quoted in a recent report by the Minneapolis Federal Reserve Bank put it, "business has been so good so long we don't think of it as a boom any more".

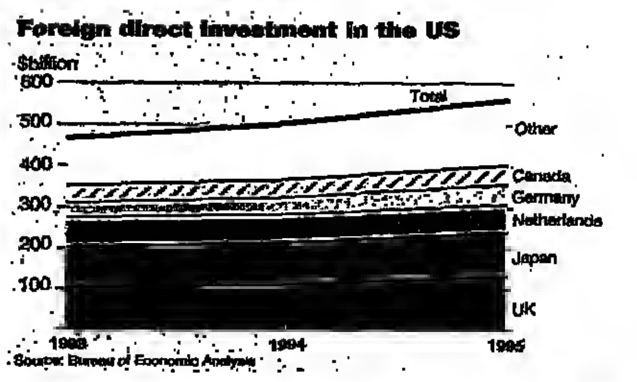
The West suffered disproportionately in the recession of the early 1990s. The nationwide slump was followed immediately by the sharp downsizing of US defence industries after the end of the Cold War. It is a telling comment on the downgrading of expectations in this once vibrant region that its businesses are now happy to report expansion at the same pace as in the country as a whole. Civil aircraft production has been increasing at the aerospace companies in the last year, and electronic industries from Seattle to San Diego continue to perform well. Job growth has been among the best in the country.

Nonetheless, the West's businesses seem among the most pessimistic about future prospects. In a recent survey, 56 per cent of companies in California, Washington and Oregon said they believed inflation would accelerate in the next year, against just 5 per cent who thought it would subside.

The overall picture is of an economic expansion that is continuing in its exceptionally virtuous circle. Tight labour markets have not yet produced the type of inflationary result normally seen in the past, as companies have benefited from falling non-wage costs and are still increasing capital spending and returns to shareholders. At some point in the next few years that circle will be broken, but unusually for this stage of the expansion, it is far from clear where in the US that break will be made first.



Foreign direct investment in the US



Source: Bureau of Economic Analysis

PROFILE Toyota

Definitely not the car wars

The timing may seem expedient, but the build-up of operations has been steady

Earlier this year, Hiroshi Okuda, president of Toyota, caused something of a stir in Kentucky. In impromptu comments to reporters, the Japanese executive suggested the auto-makers' US plants were less efficient than those back home.

It was a rare slip for a company that has trod with care since the end of 1985, when it announced its first plans to build a plant in the US. In most respects, Toyota's involvement in US manufacturing has been a model of low-key investment in a politically charged industry. That makes its experience a far cry from that of compatriots like Mitsubishi, whose own Midwest plant has been embroiled in one of the US's most publicised sexual harassment cases of recent years, and Bridgestone/Firestone, which until earlier this month was involved in a bitter, drawn-out labour dispute.

Toyota has also carved out a manufacturing base in a string of small towns sandwiched between the Midwest and the South, a broad strip covering four states where it now ranks among the biggest foreign investors.

The Japanese company's move into the US in some ways echoes that of other companies, but in others tracks the history of US/Japanese trade relations and the trajectory of the yen. Like many foreign companies, it had established a market for its products long before putting down manufacturing roots. Becoming a local manufacturer was a natural follow-on to its successful export-led assault on the world's biggest automobile market.

The company announced its first investment – a plant in Georgetown, Kentucky – when trade tensions over Japan's growing trade surplus were high. Shortly before, the Plaza Accord had spelt the end to a low yen, providing further reason for Japanese manufacturers to shift operations overseas.

More than a decade later, the timing of Toyota's announcements of new investments in the US still have an echo of political expediency about them. Its most recent plan – a plant in Princeton, Indiana, to build pick-up trucks – was unveiled at the end of last year, in the wake of a renewed bout of auto-industry trade tensions between the US and Japan.

A spokesman for the company in the US says the Princeton plant, like the Georgetown investment before it, was part of a long-established company plan to shift operations closer to Toyota's ultimate markets. It was only the timing of the announcements that reflected political realities, he adds.

Whatever the timing, the build-up of Toyota's North American operations has followed a steady path. Recently it has also followed a discernible geographical pattern, with new investments sited along a region that extends from Missouri in the West through southern Indiana and Kentucky into Western Virginia. This may not be the centre of the country's traditional industrial heartland, perhaps, but it is a region with a manufacturing tradition where each of the big US automobile manufacturers has long had operations, Toyota says.

At the core of this network is Georgetown, Kentucky, where the company builds 80 per cent of its Camry saloon cars. "With [Georgetown] as an anchor, we've sited other plants along the highway network," it says. Besides the network of suppliers that has sprung up to service the company, placing the plants near each other has eased the flow of parts and people between them, and has allowed the company to centralise expensive resources like engineering.

That has included a plant in Troy, Missouri, that casts aluminium engine parts and a $400m engine plant, to be built in Buffalo, West Virginia. Most recently, the $700m plant in Princeton, Indiana, where it will build 100,000 pick-up trucks a year. Importers pay a 25 per cent duty on light trucks, which is one reason US-made vehicles retain a grip on the market. Earlier this year, Toyota also announced plans for a US headquarters to be sited in northern Kentucky.

Asked what has lain behind Toyota's choice of investment locations, a spokesman lists the customary range of considerations: "available pool of labour, available transport, the cost of land and incentives".

Labour is likely to have been a big factor. West Virginia's unemployment rate this summer stood at 7 per cent, a level exceeded only by New Mexico and Alaska. The traditional coal mining industry in the southern part of Indiana, meanwhile, has suffered cutbacks, making labour a more available commodity there.

It was also Kentucky's high unemployment that led the state's attractive incentives which won the original Georgetown investment in the first place. Of the 6,500 workers at Georgetown, a quarter have college degrees, and 92 per cent are high school graduates, Toyota says.

By placing itself outside the Rust Belt, Toyota has also been able to set up non-union plants. That has not held down wage rates, the company says: pay scales at the Georgetown plant have risen since it opened, to a level where they are now comparable to United Auto Workers union rates.

Whether it remains beyond the reach of the UAW remains to be seen. Echoing a new push by organised labour in the US to lift its membership levels, the auto workers union has said it will seek to organise so-called "transplant" factories like those of Toyota.

The Princeton plant will lift Toyota's North American production capacity to 1.2m vehicles a year, compared with the 735,000 it produced in 1995. And that, in turn, will help to make the Japanese manufacturer one of the US's biggest exporters. So far this year, its exports from the US have been running at an annualised rate of nearly 50,000: Toyota says it will double that by 1998.

And what of Mr Okuda's suggestion that the US plants are less efficient than their Japanese cousins? The company will only say that its US and Japanese assembly plants are roughly comparable. The Japanese plants use less labour per vehicle produced, but labour costs are lower in the US – and anyway, much depends on the yen/dollar exchange rate.

Richard Waters

■ The quality-of-life factor: by Christopher Parkes

Space is a matter of taste

The wind can blow cold across those famous wide open spaces

The wide-open spaces of the West are touted as being among the things which give the region the edge in "liveability" over the more populated, polluted and crime-riddled environs of established centres.

Yet sometimes those spaces may be a little too open for some people. And these types – and their employers – are often precisely who the western states most want to attract.

These are young, creative high-earners in growth industries, preferably with a high-tech bias: and the West wants them to add the sheen of modernity and bring new vigour to communities where the downsizing of mainstay employers such as the military or agriculture has exposed regional economic weaknesses.

The qualitative attractions of the West for companies and their employees are undeniable. Ample space, which implies relatively cheap office and plant space, also means affordable, good quality housing for employees. Satellite developments, commonly in suburbs, and the relatively small scale of most conurbations cut commuting times appreciably.

The West also offers some of the most majestic landscapes and ample hiking, hunting, shooting and fishing. The cabling of the whole US, apart from the most far-flung regions, means no-one need live without television. The sun is also an attraction for those hardened in the winters of the East and Midwest.

According to one recent study, such economic and bucolic charms combine to best effect with the eternal lure of the city environment in Seattle, pressed between the sea and mountains in Washington state.

The city was chosen in a joint survey by Fortune magazine and the Arthur Andersen consultancy as the place where business and family life could both be lived best. Denver, in Colorado, came second in a top 10 which was also notable for the inclusion of Washington DC and the exclusion of California and the rest of the West.

Home to long-established Boeing and Microsoft, the dominant force in software, Washington state is an object of envy in the region because of the industrial infrastructure – probably better described as its businesslike environment – which flourishes around these two mighty anchors.

Denver, with an agglomeration of communications technology companies, shares similar advantages, which are lacking in many other western states – and even in nearby cities.

Colorado Springs, an elegant city with many quality-of-life factors working in its favour, found a shadow cast over its sunny aspect recently after a national newspaper postulated that it and other smaller communities were risky choices for big-city corporations looking for new homes.

The criticisms, which have often been heard in the West, include lack of cultural choice, lack of racial diversity and – most frequently – conservatism.

Rocky Scott, president of the city's economic development corporation, says he is accustomed to negative media coverage. However, he and colleagues were stung this time because the article focused on the reported experiences of employees of MCI Telecommunications who had fled, or were unhappy with their relocation from Washington DC.

The main inferences to be drawn were that MCI was disappointed by its move, that workforce diversity suffered, and that the division was isolated from its corporate headquarters.

MCI, which moved its systems engineering division to Colorado Springs five years ago, is one of the city's relocation showpieces, and currently employs almost 4,000. About 50 of the first 300 employees to arrive from the east left the city shortly after arrival, complaining of the lack of racial diversity, feelings of isolation – and conservatism. Visiting commentators, according to Mr Scott, object to manifestations such as a 1992 proposed amendment to the state's constitution which would have prohibited state and local legislation protecting gays and lesbians from discrimination.

"We believe in no special rights for gays, lesbians or whoever," says Mr Scott, and outsiders' views that the amendment was a "gay-bashing" initiative represented a failure to understand the nature of the community.

Although the population of Colorado Springs has increased by 175,000 to 430,000 in the past 15 years, its pioneer ambience still prevails. The population is 80 per cent white. The dominant ethic is self-reliance. "This is the West. We all carry our own baggage here," says Mr Scott.

The MCI case made the national headlines, but the underlying issues are well known throughout the West, and stem broadly from the clash between the established small-town cultures and the imported habits and tendencies of newcomers from big metropolitan areas.

One result is that working populations in the West tend to be highly mobile. According to one city official in Phoenix, Arizona, for example, only one of every three people who move to the state settles permanently.

As the "liveability" rankings of Seattle and Denver suggest, personal and corporate quests for like-minded neighbours, diversity and outward-looking lifestyles may be best resolved when corporations which depend on dealing with the outside world cluster in the wide-open spaces with which the West is so amply equipped.

Whether or not MCI's software development arm had a sticky start in Colorado Springs is ultimately beside the point. Moving again is not on the agenda, and the more likely prospect seems to be that similar or complementary companies will elect to move in next door.

The Superstition Mountains, close to Phoenix: the West offers majestic landscapes and relatively cheap business and housing space . . . but these spaces can prove too wide open for some Glyn Genin

■ Silicon Valley: by Tom Foremski

It's sunny in these parts

There's nothing virtual about the success of the Internet centre of the world

Northern California's Silicon Valley has long been the local economic powerhouse. It continues to grow stronger, affecting home and office rents from San Francisco to San Jose, and placing pressure on the highway infrastructure.

Silicon Valley is benefiting from the popularity of the Internet – and computer networks in general – with huge demand for network communications equipment and software. Cisco Systems is Silicon Valley's fastest growing company, and it plans to add 5,000 jobs over the next few years to help feed the demand for network equipment.

Other network firms such as Netscape Communications, Oracle, 3Com and many others are also growing rapidly from their network business. In fact, Silicon Valley could well be renamed Network Valley to more accurately reflect its current focus.

Thousands of professional workers from around the US and abroad are joining local firms. Silicon Valley firms are leading the campaign of resistance to proposals by US lawmakers to restrict the number of visas for professional workers from abroad. They argue that they need the best talent, no matter where it's from.

Silicon Valley's new surge in growth is making it difficult for companies to find office space, and for workers to find accommodation. Apartment rental vacancy rates are at all-time lows and an earlier economic slump has led to a scarcity of new office construction.

Finding an apartment can be a harrowing and expensive effort. Landlords are reporting sometimes more than 20 people at a time coming to view apartments. Some applicants are including detailed resumes and offering cash for deposits. With high demand, rents have risen to among the highest in the US.

The influx of people has been reflected in longer commuting times as thousands more use the already crowded highways.

However, generous wages, the moderate climate and a multicultural environment make up for many of the local disadvantages. The area's location on the Pacific Rim and the many contacts with Japanese and Asian firms is another strong feature of the area.

Chip companies remain strong, but all the high volume chip fabrication plants have been moved to locations in Texas, Oregon, Arizona and Colorado, where labour costs are lower and companies can take advantage of incentives offered by the various states. These include free or cheap land, and lower taxes. However, they have kept many specialist laboratories and research and development centres in the area.

Chip companies enjoyed a prolonged boom until earlier this year. The industry had always gone through boom and bust cycles, but the recent five-year boom left some industry executives wondering if the cycles were finally over.

That was wishful thinking as chip orders collapsed late last year. Optimism proved unfounded that tens of millions of PC users would upgrade to the latest version of Microsoft Windows 95 and snap up new PCs and upgrade current systems.

The memory chip market thus became a drag on the chip industry, and although some companies laid off hundreds of workers this year, their new focus on specialist chips rather than memory chips bodes well for a quick recovery by early 1997.

Intel, for example, dominates the market for microprocessors and is a significant local employer. Its dominance on the PC microprocessor market and an aggressive programme of new microprocessor introductions should ensure its continued dominance. Local competitor Advanced Micro Devices could steal away some of Intel's microprocessor market with its line of Intel-compatible microprocessors, but needs to attract some top-tier PC manufacturers as customers.

Another sector which has had problems are multimedia title companies. Two years ago San Francisco was the centre of a booming multimedia industry with its Multimedia Gulch area in the south of the city. CD-ROM based titles featuring video, graphics and sound never found their promised market as compatibility problems with Windows-based PCs left many frustrated customers. New technologies such as Digital Video Disk, with its almost 5 gigabytes of storage on a CD disk and faster access rates, may revive the fortunes of some local multimedia companies.

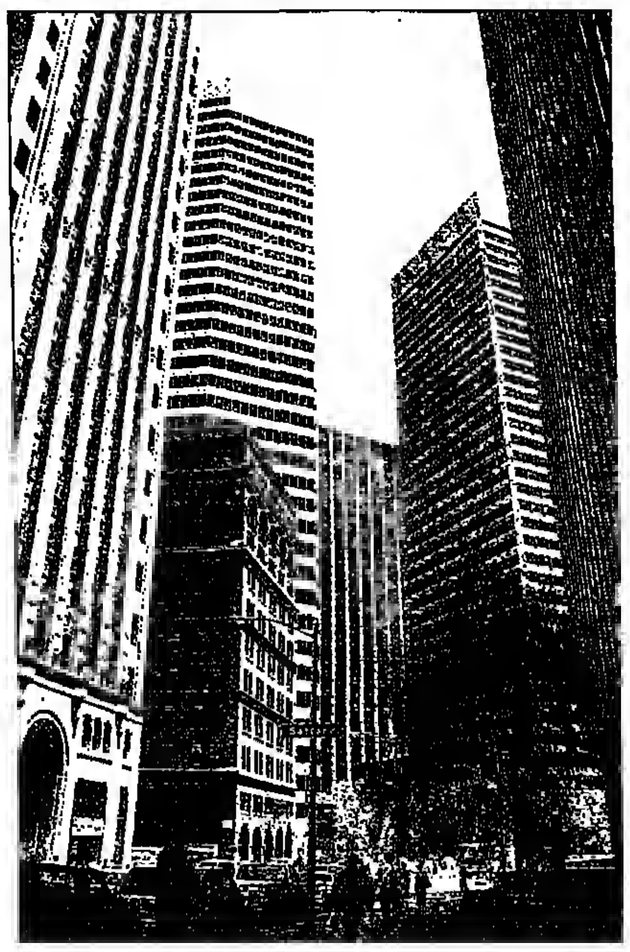
The key to Silicon Valley's continued growth is its large number of venture capital firms who provide the financing for hundreds of start-up companies that eventually may grow into giants such as Cisco. The area provides a pool of talented and ambitious people to found and staff the start-up companies.

Silicon Valley boasts the largest concentration of venture capital firms in the world, and past success has attracted even more investors hoping to make profits on backing the right company. The danger, however, is that there will be a repeat of what happened in the mid-1980s when volumes of venture capital funded hundreds of PC firms trying to become the next Apple Computer, leading to too much competition and a painful shakeout that hurt the local economy.

The focus of venture capital investments is currently overwhelmingly network and Internet connected, and competition to find the best startups is high. The competition is well demonstrated by leading Silicon Valley venture capital firm Kleiner Perkins Caufield & Byers (KPCB), and its recently established Java Fund, which raised $100m from individual investors and ten leading computer industry firms. KPCB hopes the Java Fund will give it an edge in bringing key companies to its investors.

Venture capital funds are being fuelled by the success of initial public offerings (IPOs) earlier this year, such as Yahoo, CyberCash, Excite and Infoseek. There is also an investor frenzy around the IPO last year of Netscape Communications. Although these companies have been taken to market based on a concept rather than traditional factors such as solid management and a track record of earnings and profits, investors initially greeted the IPOs with enthusiasm.

Investor frenzy has cooled significantly since those Internet IPOs floated earlier this year, but there is still no shortage of money available for a company with a good Internet story.



San Francisco: growing tall on computers and their associated industries Michael Mendon

■ California and the Rockies: by Christopher Parkes

Competition gets stiffer

Paradoxically, the economic recovery has brought with it some hardships

Dial, the diversified consumer products group, was one of the earliest household-name and Fortune 500 corporations to set up its headquarters in Phoenix, Arizona.

It has been a downtown fixture for more than two decades. Its history in the city, and its tangible and intangible contributions to the economy, have made it a model of what western metropolitan areas dream of when planning their strategies to attract companies looking for a new home.

Dial cemented its commitment by taking a 25 per cent equity stake in the Phoenix Suns, the local basketball team, which has helped embellished the city's reputation by making it a national centre for major league sports.

The company's 24-storey office block next door to the Suns' America West arena – named for the locally-based airline, another leading corporate sponsor and stakeholder – is a symbol of Phoenix's emergence into the modern corporate age.

But now the office block is for sale. So too is Dial's stake in the Suns, bought for $6m and worth an estimated minimum of $25m.

The sales are among the main consequences of the restructuring at Dial in which the group was split into two. Viad, a new company, has been spun off with the lion's share of the assets and value in a services conglomerate spanning airline catering and cruise lines. The original Dial name is now the sole preserve of the soaps, Purex detergents and Armour Star canned foods operations.

But for Phoenix, the most dramatic side-effect has been Dial's plan not only to move out of its well-appointed tower block, but also to seek cheaper housing outside – or even in another state.

The underlying rationale is that a producer of fast-moving consumer goods rightly belongs in or close to the marketplace. There is also a suspicion that Dial's new chief, Malcolm Jozoff, threw in the move in a bid to impress with his vigour the Wall Street sceptics who have been less than impressed by the results of the corporate split.

However, the prospect of Dial's moving has raised a furore in Arizona, which aggressively seeks inward investment. It has also underlined the role of big corporations in civic life. Apart from the revenue losses from municipal and state taxes, the region's charities and community associations stand to lose $5m in annual donations. The company has also withdrawn its $500,000 sponsorship of next year's Phoenix Open golf tournament.

By some accounts the city also stands to lose face in the corporate relocation market. "We really have very few [Fortune 500 companies] and cities fight long and hard to get them. We believe they are a strong selling point," said Dan Deever, the city development official. Dallas, New Jersey, Chicago, Denver and Omaha, Nebraska, have already joined the fray.

Omaha already has a bone to pick with Arizona over the recent incentives tussle to attract the planned MCI/News Corporation satellite communications centre. Breaking unwritten rules on confidentiality, Arizona authorities released information on the $100m initial investment and hurriedly called an emergency legislative session to change its tax code in order to snaffle the deal from under the noses of Omaha and Colorado Springs.

In fact, Phoenix was the satellite partners' preferred site because its position and topography suited their technical needs best. News Corp only had to ask for tax breaks comparable with those in other states and they were delivered post haste.

This incident served to highlight the mounting competitiveness among the western states which, paradoxically, have started to suffer from the economic recovery.

In the past five years most have benefited to some extent from relocations of companies moving out of California, where the recession, compounding existing problems with unfriendly political environments, congestion, urban violence and pollution, was often the deciding "push" factor prompting them to move.

"Pull" factors included cheaper land, business-friendly governments and the better quality of life afforded in these often under-populated states.

But the Californian economy is once again growing fast. Its huge market has revived. A raft of initiatives from Sacramento, the state capital – not least a recent cut in corporate taxes – has improved the business climate.

The push factors have lost strength, and while the attractions of the other western states are undiminished, the bout of corporate itchy feet has passed. Rival states have in the past year sharply reduced spending on advertising in California designed to seduce discontented companies.

Their handsome incentives policies have also been increasingly questioned by dissenting public policy experts who charge that using tax dollars to subsidise newcomers is unfair, damages existing local companies and drains funds from infrastructure, education and other services.

"When large amounts of taxpayers' money ends up on the recruiting table . . . those amenities that signal vital communities and attract businesses . . . ultimately can be underfunded and deteriorating," says Bob Cooper, president of the economic development council in Spokane, Washington state.

Yet such matters are of little immediate concern to the development bodies along and to the west and south of the Rockies, confronted by the renewed magnetism of California. As the biggest market in the region, with ports which handle more than a quarter of all US overseas trade, its established centres in San Francisco and Los Angeles present a formidable challenge.

Restructuring of key industries such as banking, for example, has sharpened competition between the two leading cities and made life all the tougher for more far-flung centres with ambitions for economic clout.

But even if Arizona loses its flagship Dial Corporation and initiatives such as Seattle's new tax break packages fail to cast the hoped-for spell on financial services companies, the long-term prospects remain bright.

Regional markets are growing fast, and still attracting substantial chunks of investment as banks and credit organisations move labour-intensive backroom operations out of over-crowded, high cost areas. Manufacturers are spreading outwards for the same reasons.

California's neighbours may not be happy acting as an extended "workbench" feeding the Golden State's recovery, but the faster they grow their populations, the greater their chances big name companies will be drawn in and those already in place will cease even to contemplate moving out.

Incentives: by Richard Waters

Bidding war reaches new heights

The only comfort for taxpayers is that states are thinking harder about distribution

Mercedes' 1993 decision to build a plant in Vance, Alabama, will be remembered for a long time in economic development circles in the US – and by Jim Folsom, the southern state's former Democratic governor.

It was one of the most significant manufacturing investments of the decade so far, in part because a German automaker with an unsurpassed reputation for quality had picked a rural southern community for its first foreign plant.

More notoriously, though, it also marked one of the biggest incentive packages ever assembled in the US. Alabama agreed to extend support worth $253m to win the bidding war for the Mercedes plant. Indiana, the year before, had agreed to a $300m package to secure a United Airlines facility – but that brought with it 6,000 jobs, rather than the 1,500 projected for the new assembly plant in Vance.

The deal prompted an outcry among Alabama'e taxpayers, and may well have contributed to Mr Folsom's failure to secure another term as the state's governor. It also set a new record in the nationwide competition to attract jobs: a subsidy of more than $150,000 for each position directly created.

The Mercedes case may have been the clearest example so far of the willingness of politicians to pay to attract ths most visible and biggest investment projects, but it is far from alone. The year before, South Carolina extended $135m to persuade BMW to site an assembly plant there. Over the past 18 months, Virginia has agreed to incentives totalling more than $175m to attract three separate microchip plants.

The value of such landmark projects is hard to calculate. Tha big incentives, though, are built on the belief that they provide the platform for much broader economic development – much as the first "anchor" tenant in a new shopping mall brings other tenants in its wake, says Rick Weddle, head of economic development efforts in Toledo, Ohio.

There are certainly examples of big incentive deals which appear to have more than met their objective. Kentucky, for instance, extended $150m of assistance to encourage Toyota to set up a plant in Georgetown. Since then, capacity at the site has been doubled, with the workforce now reaching 6,500. According to a study by the University of Kentucky, the plant helped to create 22,000 jobs and has contributed $1.5bn to the state economy.

Besides their direct and indirect economic value, such landmark investments may also help give states a better ebot at winning other projects. "Because of their ability to package that [Mercedes] deal, Alabama is now on the short list for most major projscts" that are looking for a home in the US, says Mr Weddle.

The latest to pursue this strategy has been Virginia, which 18 months ago agreed to incentives worth $86m to attract a new Motorola microchip plant. Wayne Sterling, director of the Virginia Economic Development Partnership, said the taxpayer support was needed to establish a base for a technology industry with relatively high-paying jobs.

That may have had something to do with its later success in attracting two further plants, ona a joint venture between IBM and Toshiba, the other s project involving Motorola and Siemene. The value of the incentive packages for those plants: around $60m and $30m. "We had higher incentives early to attract a new type of activity" to the state, says Mr Sterling.

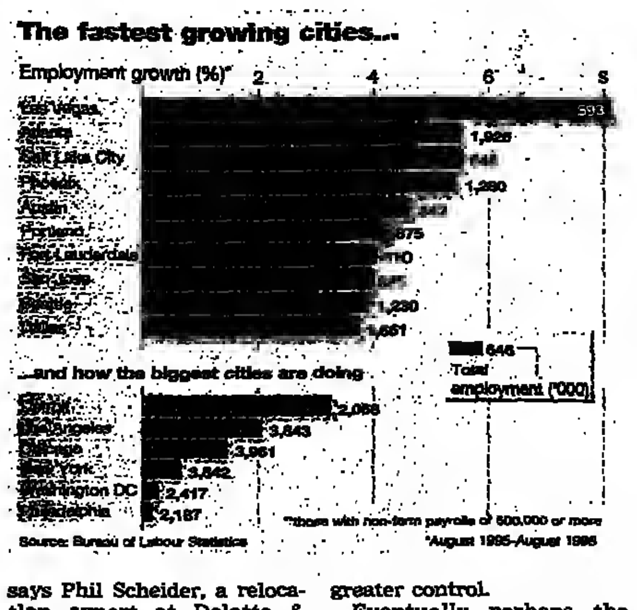
Such big projects are only the most visible part of a bidding war between states that has now become an accepted part of the competition for jobs. Most states – including those headed by Republican governors who profess to hate such "corporate welfare" – now offer some form of economic inducement.

"To some extent there is a cultural expectation of incentives" on the part of companies which are thinking of moving, says Harvey Schmitt, head of the chamber of commerce in Raleigh-Durham. That, in turn, has prompted soms cities to extend incentives to their better corporate residents to discourage them from leaving. For a city like New York, the fight to prevent investment banks and other financial companies from moving out of town has become an expensive exercise indeed.

In such a climate, incentives have eerved to cancel each other out, leaving no states or cities the obvious winner. The only clear beneficiaries: the companies that pocket the cash.

Short of s move in Congress to clamp down on the use of incentives – something that has caused rumblings, bnt little action, on Capitol Hill – then this ultimately self-defeating competition looks set to continue.

The only consolation for local taxpayers is that most states are putting more thought into how they are distributed. "States and cities are much more careful than they were in the past," says Phil Scheider, a relocation expert at Delotte & Touche/Fantus Consulting – a reaction to the backlash that projects like the Mercedes plant have caused.



Taxpayer eupport tends increasingly to be tied to infrastructure developments, such as the development of roads around a new site. Some states, including Alabama, have also won high accolades for their training programmes. And most now tie any direct cash grants to specific performance targets like hitting projected employement levels, and either delay their payment for some years or use claw-back provisions to keep greater control.

Eventually, perhaps, tbe self-defeating use of incentives will give way to more considered ways of competing for investment. Ohio, for instance, has launched a study on its overall competitiveness, covering factors ranging from the assistance programmes at its disposal to its tax code. It may well be that an overhaul of the state's tax system would be the most effective way of competing for new businesses, suggests Mr Weddle.

But for now, that won't change one of the realities of the US economic development industry: that incentives have become standard.

Education: by John Authers

Cents and sensibility

Research dollars generate spin-offs for the economy of the entire state

Pursuit of acsdemic excellence can bring economic benefits. In the last decade, several states have made higher education the centrepiece of economic development strategies.

Several examples give them a clear reason to do so. The nation'e two greatest concentrations of high-tech industry – Silicon Valley in northern California, and the "Route 108 Corridor" on the outskirts of Boston, Massachusetts – both grew around establisbed and respected research universities.

Harvard and Massachusetts Institute of Technology, in Boston, and Stanford and the University of California at Berkeley, attracted able scientists, guaranteeing a skilled pool of labour.

Also, universities are increasingly taking on the job of "technology transfer". Typically, they have special departments to market their own inventions, and to provide technical help in developing innovations made by local companies. This can range from testing an invention, through developing it so that it can be mass manufactured, to providing help on how it can gain regulatory clearance. These services make them a magnet for high-tech companies.

Harvard and Stanford have both taken more than a century to build their reputations. However, a public-privste sector collaboration in North Carolina, now the envy of growing cities throughout the US, has shown it is possible to achieve this within s decade.

The "Research Triangle Park", s large business park for research organisations built in 1959 between the University of North Carolina (in Chapel Hill), North Carolina State University (in Raleigh) and Duke University (in Durham), now gives its name to the whole area.

Built in collaboration between business and academis, with bscking from the state, it took in 21 companies in its first decade, and had grown to take in 66 by 1989; and now has 90 separate research and development facilities.

Between them they employ more than 36,000 people, paying annual salaries of $1.2bn – a buge stimulus to the local economy, which had suffered from being away from the main arteries of communication and transport, unlike regional rivals such as Charlotte and Atlanta.

Raleigh-Durham also happily totes surveye which consistently show that the area has maintained its standard of living – for example, it still has the second-highest number of doctors per capita in the nation, after Boston.

Rival cities are now trying to replicate tbis. In 1990, Atlanta set up the "Georgia Research Alliance" of six universities (of which the best known, in the centre of the city are Georgia State University and the Georgia Institute of Technology) witb the aim of promoting the technology transfers.

Initiatives so far have included attracting new "marquee" name researchers from the academic world, who often hring research groups with them, and an innovative state scholarship scheme which uses funds from the Georgia lottery to guarantee free tuition for any Georgia student wbo graduates from high school with at least a B average. This is to stop the most able students from "migrating".

Up to the end of 1995, the six universities had contributed $635m in research and development spending, while the etate had sdded $113m, which matched private donations.

The aim is "the formation of whole new industries". In other words, sccording to the alliance, "Georgia wants its own silicon microchip".

The Midwest: by Richard Waters

Rust Belt develops more of a shine

On the back of the recovery, Cleveland and its neighbours have a new lease of life

Malin Kaplin, a chef from one of New York's swankier restaurants, concedes Cleveland was never on his list of top ten places to live.

When he arrived on the shores of Lake Erie five years ago, the Midwest city was struggling to shake off its image as one of the most delapidated in the Rust Belt. "There wasn't a whole hell of s lot going on in downtown Cleveland," he recalls.

By New York standards, that may still be the case. But in local terms, what has happened during the 1990s in Cleveland – and some other cities in the industrial Midwest – is striking.

In the city's downtown area, s wave of refurbishment has seen old warehouses turned into apartments, and cavernous banking halls restored to their early-century grandeur. Shining new trophies of economic success – s science centre, the Rock and Roll Hall of Fame – have risen along the lakefront.

Mr Kaplin, meanwhile, has sunk $1m of investors' money into two restaurants in the city's downtown area, and another two that are due to open by next summer. Rare tuna and swordfish have elbowed local delicacies off the menu. "People wanted that big city feel. They were crying out for sophistication," he says.

Cleveland is not alone. The Rust Belt has ridden the US economic boom to the lowest unemployment in the nation, and the signs of that success are visible all over.

By this summer, the Midwest's unemployment rate had sunk to 4.5 per cent – the lowest of any region in the country, and a full percentage point below the national average. For s region that grew accustomed in the 1970s and 80s to lagging the nation in job creation, that is a turnaround.

One result is that almost every businessman has an anecdote about how difficult it has become to find new workers. One recent job advertisement in Michigan drew only two applicants, says Woody Morcott, chairman of car parts maker Dana: both were illiterate.

Mr Morcott's expsrience points both to the extent of the economic rebound, and to one of the things that could threaten it. The turnaround has not reversed the steady outflow of people to the West and South in the 1970s and 1980s and brought workers back. "We are seeing limited growth in the labour market," says Rick Weddle, chairman of the Toledo Growth Partnership. "Most of the regions around us are doing well, so there is no cross-migration."

However, there is no questioning the region's renaissance – or the fact that it has re-emerged as an attractive location for new manufacturing industry. Business development experts from other regions concede the Midwestern location now appears on many companies' final shortlists of possible investment destinations – s sharp turnaround from the days when high labour costs threatened its prosperity.

As with any other part of the country, most of the new investment is coming from companies already located in the region. For the Rust Belt, though, this marks a turnaround from the days when local companies looked to cheaper industrial locations, like the South-East, rather than closer to home.

The greater competitiveness has only been achieved at considerable cost. Average personal incomes in Michigan, for instance, fell below the national average at the end of the 1980s – a reversal of the region's traditionally high earnings. In the mid-1990s, however, they have recovered on the back of the auto industry's resurgence, and now once again stand above the mid-point for the nation as a whole.

The region's future success depends on the prosperity of the same industries with which it has traditionally been associated. The automobile reigns supreme: one out of every five jobs in Michigan is dependent on the automobile, either directly or indirectly, says David Littman, an economist at NBD First Chicago.

Does that make the US's industrial heartland vulnerable to the same sort of shock it received before? To the extent that the recovery of US manufacturing industry has been based on external factors – a falling dollar, low oil prices, a growing world economy – then it could.

However, much of the antiquated industrial plant from which the Rust Belt derives its name has been stripped away. A decade of investment has fuelled s productivity boom, and the industrial Midwest has been one of the biggest beneficiaries.

Local managers also claim there has been a revolution in management quality, and a new, more co-operative approach to labour relations that has left companies more flexible and competitive.

Until those managers and the companies in which they work are subjected to a crisis, however, there is simply no way to assess this.

Meanwhile, there is at least one area in which the experience of local managers could prove wanting. Says Mr Morcott, chairman of Dana: "We've got more and more plant managers who hsven't been through a down cycle." That lack of personal experience could prove telling, hs says.

New York: by Lisa Bransten

The 'totally wired' village

Even traditional financial service companies are looking for high-tech space

The fact that the revolving doors at 55 Broad Street are plastered with the building's own Internet address is the first sign that the skyscraper is unlike its Wall Street neighbours. Signal number two is the 13-foot monitor in the lobby usually alight with pages from the Internet's World Wide Web.

But the biggest difference between the New York Information and Technology Building and nearby investment banks, stock exchanges and corporate law firms, is the communications backbone not visible to the casual viewer. Running through closets on every floor of 55 Broad Street are the vital supply links for new media businesses: fibre-optic links for voice, video and data transmission and connections to the broadcast satellites on the roof.

The building, which is owned by developers Rudin Management, lies at the heart of an area which suffered disproportionately from the downturn of the early 1990s, and which developers hope will become s centre for high tech interactive and Internet companies.

The building is representative of the transition many in local government and the private sector hope to see in the area. Until 1990, it was the headquarters of Drexel Burnham Lambert, the now-deceased investment bank best known as the employer of junk bond king Michael Milken, who became a symbol for the Wall Street excesses of the 1980s.

For nearly six years after that the building stood empty. In that time many large investment banks left the downtown area for more accessible mid-town Manhattan, and Wall Street vacancy rates soared.

"Lower Manhattan is reinventing itself into a totally wired global village," says John Gilbert, chief operating officer and chief technology officer at Rudin. About half the office space in the building's 30 floors is already rented, and it should be fully leased by early next year.

Technology has been one of the fastest growing segments of the New York economy which now boasts about 1,300 new media companies, according to a survey by Coopers & Lybrand.

Outside analysts, however, are more sceptical that the pockets of growth will be enough to power the regional economy in the near term. New media employment in the entire metropolitan area accounts for only about 71,500 of the region's 7.7m jobs and most of the high tech jobs come with lower salaries than are found in other industries.

Growth in high-tech businesses "is definitely there, but I do not think it is going to be a driving force in the economy," says Kathryn Chin, an analyst at Salomon Brothers, who issued a report on New York regional economics last month.

Indeed, in spite of burgeoning activity in lower Manhattan, where the new media industry is concentrated, the Wall Street area is only just beginning to regain its footing. Vacancy rates in lower Manhattan were up to about 26 per cent in 1994 and 1995, according the Jones Lang Wootton, the real estate firm. This year they edged down only to 25 per cent. In mid-town Manhattan, by contrast, the recession drove vacancy rates up to only about 16 per cent and they now stand closer to 12 per cent.

> All over the region, cities are trying to reinvent themselves

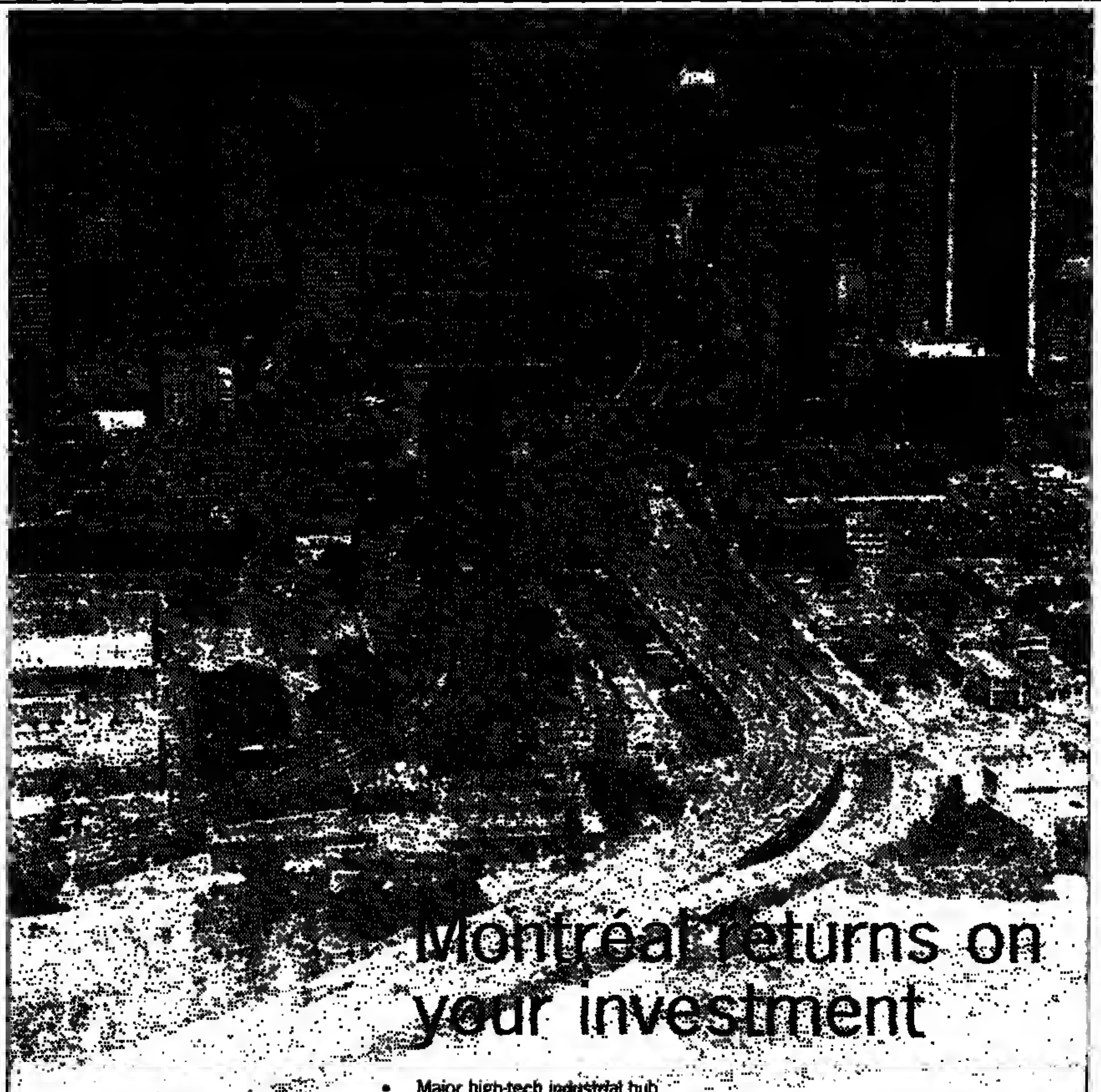
Like most of the North-Eastern US, the New York region is considered a "mature economy" that saw much of its manufacturing base migrate South and West to "Sunbelt" states, where tax breaks abounded. All over the region cities are now trying to reinvent themselves by lowering taxes and capitalising on educational resources to attract new service industries.

Ms Chin notes that while other regions have also experienced job losses from restructuring, "cities such as San Jose [in the heart of Silicon Valley] and Albuquerque [in the south-western US] have created enough new jobs in other industries to offset these losses".

Instead, much of the recent rebound in New York's economy is due to the strength of US financial markets and the boom in merger and acquisition activity, which has driven growth in the securities industry. Although that sector accounts for about 4 per cent of employment in the New York area, the enormous profits and high salaries in the financial service sector mean they have a disproportionate impact.

For the time being, the future of the Wall Street area probably lies with the traditional financial-service firms, which may be beginning to move back to the area. Edward Kulik, director of investment management at Jones Lang Wootton, says that for the first time in many years he is seeing a resurgence of interest. The two primary reasons for this are that the average rent is about $10 per sq ft less than in mid-town; and there are larger spaces available near Wall Street.

Also, he says, even traditional financial service companies are looking for buildings that can accommodate the type of high tech wiring found in 55 Broad Street. In fact, Jones Lang itself is refitting another building with redundant electricity and communications wiring just a few blocks away. The building's tenants already include the back offices operations of Chase Manhattan Bank, the largest bank in the US, and other financial service companies.



■ **Football:** by Richard Waters

A sporting debate

Economists stand firm against one of the great American dreams

The mayor of Houston, Bob Lanier, is an angry man.

One of the biggest cities in the nation, Houston seems a natural home for a big-league sports team like the Oilers, one of 30 teams in the National Football League.

Yet the Oilers' days are numbered. Perhaps by the beginning of next season, and certainly by 1998, the home town of the US's energy business will have lost its football team to Nashville, the burgeoning capital of country music.

Houston will go without football because it refused to spend $200m on building a new stadium for its team. Mr Lanier said in a recent interview. "Viscerally, it bothers me that I'm taxing working people to help rich owners to build (ballparks) for rich players," he said. "Put these cats out in the jungle, they'd get eaten alive."

This southern Texas city is not alone. Big-league sports teams have become one of the hostages in the nationwide war being waged in the name of economic development. Cities across the country are fighting to attract nationally known teams – whether football, hockey, basketball or baseball. Civic pride and corporate ambition have combined to make this one of the hottest rivalries around.

This is not a new phenomenon. It is nearly 40 years since the New York borough of Brooklyn lost its beloved Dodgers to Los Angeles in the most famous midnight flit in US sports history.

In the economic boom of the 1990s, though, there are many more cities with the resources to bid for a national team – and more owners seemingly willing to move at a moment's notice.

The bidding is coming, in large part, from those cities wanting to break free from their minor-league reputations and emerge equal to the leading cities in the country.

These cities believe success will put them on the map, in the process lifting civic pride and helping to consolidate them as regional centres.

"You can't be a major league city" without major league sports, says Joe Gorman, chairman of TRW, a big auto parts supplier based outside Cleveland. That city's corporate elite, who can take much of the credit for the investments which revived Cleveland in the 1980s, are almost unanimous in their support for the city's decision to build a new football stadium. Cleveland just lost its long-time team, the Browns, to Baltimore in the most bitter fight of recent years, but has been promised a new franchise to replace it.

However, there are grounds to question the priorities which have led cities down this path.

If all the country's major-league teams were eventually to force some sort of concession from their host cities, it would amount to "a $20-30bn tax that cities can ill afford", says Mr Lanier.

Cleveland, for one, is about to spend $250m, even though its public school system is decried by locals as one of the worst in the country. Not far away, Detroit expects to pay $500m for new football and baseball venues. Yet that city's infrastructure is crumbling: 42,000 buildings within its limits stand derelict, making this probably the most hollowed-out urban area in America.

Many economists question the merits of putting investment in sports above investments in education and physical infrastructure. David Littman, an economist at First Chicago NBD, the Midwest's largest bank, says this preference for "bread and circuses rather than investment in human development" will fail to boost the economic health of the cities concerned.

Economists tend to focus on the revenues generated for a city by a new stadium, and almost all conclude these do not produce an adequate return on the investment made. In large part, that is because such venues merely replace spending that would have taken place locally anyway on other leisure activities: they do not bring in cash from outside the locality.

Also, by using tax revenues to support typically rich sports teams and their owners, cities are engaging in a transfer of public wealth to a few private individuals, says Ken Mayland, an economist at KeyCorp, a bank in Cleveland. And the people who attend sporting events tend to be the well-heeled, since ticket prices are out of the reach of many.

However, civic boosters and local business leaders around the country disagree. Perhaps entranced by the prospect of luxury boxes in which to carry on their business entertaining, many counter that prime sporting venues are essential to building both a city's self-image and its reputation.

"From the standpoint of the community's psychology, [getting a sports team] is like getting into a club," says Harvey Schmitt, president of the Raleigh-Durham chamber of commerce. "It's a recognition that you have made the grade" as a leading national city. Even though its Research Triangle area has made it one of the most desirable business locations in the country, the city is still bidding for one of up to four new hockey franchises that will be awarded in December.

Supporters also argue that new sporting venues can help to rejuvenate decaying city centres – an argument for Detroit's new venues. Certainly, recent baseball fields in Cleveland and Baltimore have become the anchors around which wider development takes place.

Above all, though, it is important to remember that this is a nation obsessed by sports. The lure of a big-league team – and the attraction of a sparkling new stadium – outshines the economic arguments.

But Mayor Lanier, for one, refuses to be dazzled. "I think it's a lousy investment," he says. "I think their value is overrated."

FOCUS Atlanta

The charm offensive pays off

Nice and easy does it: and the corporate headquarters are moving in

How does a city become a dominant business centre? The answer, if Atlanta is anything to go by, is by setting out to sell itself in a co-ordinated campaign, involving both public and private sector leaders.

No US city has grown more quickly in the last five years. Atlanta leads the country in jobs created in each of the years from 1992 to 1995: total non-agricultural employment has risen from 1.32m in 1986, when 61,600 new jobs were created, to 1.82m at the end of last year, a net increase of 562,700.

During that period, unemployment has remained broadly stable, currently standing at 5.1 per cent, compared to 4.6 per cent a decade ago.

Luck – notable geographical – has helped. Atlanta's position made it a traditional crossroads for railways, and now makes it a principal "hub" on the US internal air network. The decision to expand the city's airport in the 1970s, shortly before airline deregulation, was also fortuitous, and the airport now runs neck and neck with Chicago's O'Hare for the title of the world's busiest.

Geography has also lent the city a more benign climate than the economic centres in the north and mid-west, and it helps that the city is surrounded by forests.

But the city is also burdened with some disadvantages. It is notoriously difficult to commute in Atlanta; and its downtown area has one of the highest poverty levels in the US.

The prime reason for growth appears to be a campaign by the city's business leaders to attract corporate relocations, in competition with its regional rivals Dallas-Fort Worth, in Texas, and Charlotte, North Carolina. In the last few years, this has involved concentrating on trying to attract corporate headquarters.

According to Forward Atlanta, the group which campaigns to attract inward investment, and which is run by the Metro Atlanta Chamber of Commerce, more than a fifth of the 260 companies which moved to the area in 1995 were moving their headquarters, either for the nation or the region.

Over the last ten years, 1,595 US companies have moved to Atlanta, along with 364 international companies, including jewels in the crown such as the headquarters of United Parcels Service and Holiday Inn Worldwide, which now exist alongside locally grown companies such as Coca-Cola and the Turner Broadcasting System, owners of CNN.

The public sector has played its part. Andrew Young, the former US ambassador to the United Nations and a key lieutenant of Martin Luther King, the civil rights leader, treated his term as Atlanta's mayor, which lasted from 1982 to 1990, as an exercise in advertising the city to businesses. They in turn would create the wealth needed to alleviate the poverty afflicting much of the inner city's majority black population.

Attracting international investment was the centre focus of his administration, but it was also an article of faith that the city did not use public money to prime the pump. Atlanta fell victim to criticism from the international media when it applied this principle to funding the Olympic games earlier this year, but it was essential to sustain good relations with the business community.

According to Mr Young: "We've seen a boom in Atlanta which is nothing to do with government spending. It's a business climate where there's a minimum of red tape and no corruption. You don't have to pay anyone under the table."

This involved a direct ambassadorial role: "I gave every investor who came in my private number. I told them if they thought anyone was trying to shake them down they were to call me personally. And I assigned one person in my administration to every potential investor."

Chief executives who have made the decision to move testify to the power of the lobbying from the chamber of commerce to attract new business.

Bryan Langton, the British-born chairman of Holiday Inn Worldwide, the hotel group, became a key scalp for Atlanta early in the city's campaign. Shortly after taking over at Holiday Inn, he decided to move its headquarters from Memphis, Tennessee, in 1990.

He is now strongly committed to the company's new base: "We've had a boom city here for the last five years, and a very aggressive, well directed chamber of commerce. Business leadership in the city is extremely strong and committed, and united in what they are trying to achieve for the whole of Georgia."

He adds that this pressure has helped to make Atlanta "a great city to live in, and for kids to be educated in". And he is also partial to the climate.

The charm offensive is not restricted to companies the size of Holiday Inn. Operation Legacy, run by Georgia Power, a local utility company, in conjunction with Forward Atlanta and other sponsors, identified target industrial sectors, and then used this year's Olympics as a lure to persuade chief executives to look at the city.

Sectors targeted included telecommunications, the agriculture business, sports, and, particularly in the last few years, headquarters for international companies.

Before the Olympics, chief executives of companies thought likely to relocate in the near future were invited to Atlanta for a four-day trip. The first two days, over the weekend, would be spent being given "inside" information on the games. Monday and Tuesday were then devoted to business seminars talking about topics relevant to the industries in question, as well as broader infrastructure issues such as education and transport.

Later, decision-makers were offered tickets to Olympic events, along with the opportunity to stay with local families, to give them the opportunity to get to know the city.

Since this carefully planned soft-selling operation started in 1994, 18 companies which participated in the scheme have decided to relocate, bringing 3,100 new jobs with them. Organisers hope these figures will more than double in the next 18 months.

John Authers

Since 1994, 18 targeted companies have relocated to Atlanta, bringing with them 3,100 new jobs

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COMPANIES & MARKETS
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IN BRIEF

SAS announces 41% profits fall

Scandinavian Airlines System reported a 41 per cent tumble in interim profits, blaming stagnating traffic revenues, currencies and a sharp increase in costs allied to an expansion of capacity this year. Nine-month pre-tax profits slid from SKr2.1bn ($314bn) to SKr1.3bn after an unexpectedly poor third quarter. Page 18

Wella shares drop 7%
Shares in Wella, the German hair care and cosmetics company, fell almost 7 per cent, after the group announced an unexpected 4 per cent decline in pre-tax profits from DM88.1m ($133m) to DM84.4m in the first nine months. Page 18

Higher oil prices lift OMV
Higher oil prices lifted pre-tax profits at OMV, the Austrian oil and gas group, by 17 per cent, from Sch1.92bn ($203m) to Sch2.24bn for the first nine months of 1996. Richard Schenz, chairman, predicted a similar increase for the full year and gave a positive outlook for 1997. Page 18

Gazprom to restructure operations
Gazprom, Russia's large gas company which controls a quarter of the west European market, is planning a revamp of its operations. It aims to shed peripheral activities, introduce stricter market disciplines into its domestic business, and seize a greater share of gas distribution profits. Page 18

Vodafone acquires Peoples Phone
Vodafone, the independent British mobile phone operator, asserted control over the retailing of its handsets when it announced the £77m ($127m) acquisition of Peoples Phone, its largest and most troubled distributor. Vodafone reported interim pre-tax profits of £252m in the six months to September. Page 21

EMI up 9.4% despite overall fall
Strong sales of *Older*, George Michael's comeback album, helped EMI Group to achieve a 9.4 per cent increase in interim profits before tax and exceptional items to £112.5m ($186m) despite an overall decline in sales from its record labels. Page 21

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Chief price changes yesterday

FRANKFURT (DM)			
Rises			
Degussa	626	+	5.5
Karstadt	550.5	+	8.5
Falls			
Berliner Krft.	427	-	6
GEA Prf	461	-	9
Kali & Salz	155.6	-	4.5
PWA	207	-	8.5
NEW YORK ($)			
Rises			
Delta & Pine	34⅜	+	2⅞
Estee Lauder	51⅝	+	3⅛
Total Renal	37	+	3⅝
Falls			
Frontier CP	27⅛	-	3⅝
ITT Education	26⅛	-	1⅝
Pediatric Med	32	-	3⅛
LONDON (Pence)			
Rises			
BOC Group	889½	+	44½
Vision Group	308½	+	42½
Falls			
Azlan Group	660	-	90
Country Casls	64	-	36
Nelson Hurst	146½	-	40
Porvair	207½	-	57½
TORONTO (C$)			
Rises			
Dundee Banc B	28.25	+	2.25
Play stat	13.7	+	1.75
Vertex Enrg	27.3	+	1.3
Falls			
Cadetal Comi	7.25	-	1.0
Conteeta Res	7.7	-	1.95
Draco Engr A	47.5	-	3.75

PARIS (FFr)			
Rises			
Accor	666	+	15
Bouygues	528	+	13
Imetal	847	+	31
Sinco	409	+	21
Falls			
Havas Advert	560	-	12
Taittinger	1420	-	27
TOKYO (Yen)			
Rises			
Marcian Corp	960	+	31
Nippon Fire	633	+	12
Tokyo Rope	534	+	19
Falls			
Canon Sales	2700	-	110
Cosmo Oil	599	-	15
Toda Corp	860	-	22
HONG KONG (HK$)			
Rises			
Cheung Kong	68.5	+	1.5
Hutchsn Whmp	61.5	+	1.0
New Asia A	35.0	+	1.3
Wheelock & Co	21.55	+	0.85
Falls			
HSBC Hldgs	158.0	-	2.0
Hang Seng Bk	93.5	-	1.5
BANGKOK (Baht)			
Rises			
Ort Kemsbard	147.00	+	13.00
Post Pub	16.00	+	3.50
Tisco	142.00	+	11.00
Falls			
Kasikorn Ktry	29.75	-	3.25
Royal Ceramic	17.25	-	2.75
Thonwest Thai	29.75	-	2.00

New York & Toronto prices at 12.30

Consultation document considers the cost of connecting competitors' networks

France Télécom proposes high charges

By David Owen in Paris

New entrants to France's FFr117bn ($23bn) a year telecoms market would be faced with high interconnection charges on local calls if proposals by France Télécom were adopted by French authorities.

The level of these charges, for connecting competitors' fragmented networks into France Télécom's national network, is one of the most important issues to be resolved ahead of the opening of the French market in 1998.

The level of the charges would affect the speed of development of competition and therefore the valuation of France Télécom, due to be partially privatised next spring.

Current valuations range between about FFr100bn and FFr200bn. One of the principal reasons for the width of this range is that interconnection charges have not yet been set.

A report published in June by BZW, the investment arm of Barclays Bank, estimated the company's interconnection revenues would rocket from FFr311m in 1996 to FFr4.6bn in 2000. Yesterday, analysts said the charges suggested by the state-owned operator for other calls were reasonable and were unlikely to act as a barrier to effective competition.

The early France Télécom proposals, which date from July, are contained in a government consultation document on interconnection seen by the Financial Times.

For calls within so-called "local operator zones", whose average size is about 220,000 subscribers, the proposed charge is 16 centimes per minute. This would rise to 18 centimes for calls within metropolitan France's 18 "transit operator zones", and to 26 centimes for calls outside a single transit operator zone.

According to the document, the proposed local charge is about the same as that applying in Sweden, but is much higher than the equivalent of 7 centimes charged in the UK and Australia.

Comparisons of regional call charges range from 8 to 12 centimes in the UK to 19 centimes in Australia and 16 to 20 centimes in Sweden. National charges were said to be 12 to 20 centimes in the UK, 21 centimes in Sweden and 24 centimes in Australia.

France Télécom said the UK figures were not strictly comparable to its own proposals and an additional amount needed to be added to make them so.

Analysts said the proposed French charges did not dramatically change their forecasts of France Télécom's cash flows and were unlikely to result in valuations of the company being revised sharply up or down. June's BZW report pitched its central valuation of the company at FFr147bn.

Tony Andrews

Markets in mind: Gilles Pelisson said the company's marketing strategy would target young adults as well as families, and included developing the theme park as a conference centre

Euro Disney boosted by record attendances

By Scheherazade Daneshkhu
Leisure Industries Correspondent

Euro Disney, the heavily indebted operator of the Paris-based theme park, yesterday announced a record 11.7m visitors helped push annual net profits to FFr202m ($39.8m), at the top end of expectations.

Mr Philippe Bourguignon, chairman, said the results had been achieved against a difficult background, particularly for tourism, but he acknowledged that a sharp increase in financial charges presented "real challenges for the future, particularly for 1997".

The 9 per cent rise in visitors for the year to September 30 largely offset reduced entry prices introduced in April 1996. More than 30 per cent of the visitors were repeat customers attracted by new shows. Hotel occupancy reached 72 per cent, up 4 percentage points from last year, which the group said was above average for French hotels.

Euro Disney said the improved results were achieved after a significant increase in park and hotel income and tight cost management. Costs and expenses totalled FFr4.2bn, up 3 per cent on the last financial year, in spite of the additional 1m visitors to the theme park and 80,000 additional room nights sold.

The improved profits, up from FFr114m, were achieved against an increase in lease and financial charges of FFr103m to FFr568m in the period.

The company's shares closed down 5 centimes at FFr11.40 on the Paris bourse after earlier gains. Analysts said there had been profit-taking following a recent rise in the share price ahead of the results.

The company generated profits of FFr158m for the year-ended September 1996, up from FFr2m last time, before a one-off gain of FFr46m mainly due to a gain on the repurchase of 2.7m of the company's convertible bonds.

Income before lease and financial charges rose by 55 per cent to FFr724m. Theme park revenues rose by 9 per cent to FFr2.7bn from FFr2.5bn last year while hotel revenues increased by 11 per cent to FrF2bn. Total borrowings remained stable at FFr15.1bn.

Euro Disney estimates Lease and financial charges will add FFr200m to costs in 1997 and FFr120m in 1998.

Mr Gilles Pelisson, chief operating officer, said the challenge was to maintain the momentum of encouraging repeat visitors through the sale of multi-entry tickets.

GM to sell unprofitable parts plants to cut costs

By Richard Waters in New York

General Motors yesterday announced an agreement to sell four unprofitable vehicle parts plants, marking a further attempt to whittle away at its uncompetitive cost position in North America.

The move came a day after the company's 220,000 United Auto Workers union members voted to approve a new three-year labour contract in the US. This gives the company some flexibility in selling loss-making facilities, though it remained unclear how many of the 5,500 people employed in the four plants would have the option to remain with GM after the sale.

The four plants to be sold generated between them sales of about $1bn last year, out of total sales at Delphi Automotive Systems, GM's parts arm, of $26.4bn. The facilities – two in Canada and two in the US – are to be bought by Joseph Littlejohn & Levy, a New York buy-out firm.

Shedding its least profitable parts operations is seen on Wall Street as an important, though relatively small, part of GM's attack on its cost base. "It won't be a panacea," said Mr Nick Lobocarro, a car industry analyst at Bear Stearns in New York. "They will only be able to do this with a handful of plants."

In another sign of its attempts to become more competitive, the US's biggest carmaker said last week it would buy more electrical components from outside suppliers. That will reduce its dealings with Delco Electronics, which had sales of $5.6bn last year. Delco is owned by Hughes Electronics, GM's aerospace arm.

News of that plan has severely dented GM's class H stock, a separately traded security based on Hughes' earnings. The stock fell a further $⅞ yesterday morning to $49⅝, bringing its decline to 9 per cent since Friday.

Both moves point to efforts by GM, which relies far more heavily than its main competitors on parts made in-house, to farm out more work to lower-cost suppliers.

The latest UAW agreement, hammered out at the beginning of this month, requires GM, like Ford and Chrysler, to offer job guarantees to 95 per cent of its union workers. However, it can continue to dispose of its most troubled plants and will be able to shed workers if vehicle sales in North America drop sharply.

Standard & Poor's, the US credit ratings agency, said last week it expected the agreement to give the company room to continue lifting its productivity.

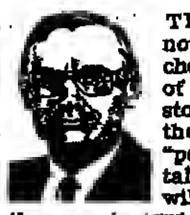
It added, though, that strikes this year had served to "underscore the problematic nature of the company's labour relations". Unlike Ford and Chrysler, which have been largely free of strife, GM has suffered a series of disputes in recent years. Strikes this autumn in Canada and the US will wipe $700m from GM's net income in the fourth quarter of this year, while improvements to the benefits of its pensioners contained in the UAW agreement will lead to a further charge of $170m.

"It's a long-term process for [GM] to become as efficient as its competitors," Mr Lobocarro said. The challenge will be to prevent any further loss of its market share in North America in the period that it takes to become fully competitive, he added.

GM's share of light vehicle sales in the US has been about 31.6 per cent this year, compared with more than 35 per cent at the start of the decade.

Barry Riley

Shareholder value revives in Germany's graveyard



There is nothing like a cheap giveaway of privatised stock to sustain the mirage of "popular capitalism". But it will take more than an instant 20 per cent profit for 2m German private investors in Deutsche Telekom to shake off the country's deserved reputation as a shareholders' graveyard.

Nevertheless, there is much more going on in Germany. The authorities have been pushing for some years for a more active equity market, with greater domestic participation. The cultural obstacles are formidable, but Germany has a much better chance of achieving radical change than France or Italy, for example.

Eager American investment banks have been arguing that the hitherto alien concept of "shareholder value" will become a key theme in continental stock markets. Indeed, Goldman Sachs has floated the idea of a "restructuring bubble" while companies are raising their rates of return on capital; stock markets could temporarily rise well above fair value as share prices discount unusually high earnings growth rates.

We must be careful here, however. The Americans tried the same reasoning in Japan two or three years ago. They reckoned Japanese industry would restructure its way out of recession using the same aggressive methods as American companies did in the early 1990s. But Japanese corporate culture did not permit it. The Tokyo market still languishes at little more than half its peak at the end of 1989.

The signs are that the picture for shareholder value in Europe will be patchy at best. The focus is on Germany and Scandinavia, plus, to some extent, Switzerland and Spain. France, on the other hand, is a *dirigiste* paradise, while on a shareholder value scale of one to 10, Italy, home of Olivetti, rates about minus three.

There are, admittedly, powerful arguments for change. Private funding of pensions (to be debated, incidentally, in the French parliament this week), thrives on equities, if they can be defined as instruments which will fully and fairly participate in long-term economic growth. There is also an urgent need to channel capital into new and dynamic industries, where lately the US and the Far East have left continental Europe floundering.

> France is a *dirigiste* paradise, while on a scale of one to 10, Italy rates about minus three

Most continental stock markets, Italy aside, have thrived in this year's bull market. But since the beginning of 1991, just before the Gulf war, the French market has risen only 50 per cent, compared with Wall Street's 122 per cent (with all calculations in dollars).

CS First Boston has published a depressing list of "value destroyers" in Europe. It says that nine out of the 10 largest French companies have eroded shareholder value in recent years on the basis of Market Value Added (market value less cumulative capital absorbed). European companies in aggregate (financials excluded) have destroyed 15 per cent of their market capitalisation. Italy, Germany and Sweden have been the worst offenders.

Above all, America's famous labour market flexibility has permitted its corporate renaissance. Real hourly wages in Germany have risen 35 per cent during the past decade relative to those in the US (where average real pay has fallen slightly though not, of course, for bosses).

Yet a similar restructuring in Europe would dump impossibly large extra costs on governments overburdened by social security commitments. Shareholder value cannot be released as aggressively as it has been in the US.

All the same, it is going to be a vital theme of the next few years. The Telekom issue is perhaps of less relevance than what is going on at companies such as Hoechst, Daimler-Benz and Deutsche Bank. For the biggest companies, traditional German governance priorities are becoming an obstacle to full participation in global markets.

But France has been dismissed by CS First Boston as "the shareholder value missed opportunity of the next five years". Don't all rush to buy Crédit Lyonnais.

COMPANIES AND FINANCE: EUROPE

SAS suffers 41% decline in interim profits

By Greg McIvor in Stockholm

Scandinavian Airlines System yesterday reported a 41 per cent tumble in interim profits, blaming stagnating traffic revenues, currencies and a sharp increase in costs allied to an expansion of capacity this year.

Nine-month pre-tax profits slid from SKr2.1bn to SKr1.3bn ($197m) after an unexpectedly poor third quarter, prompting SAS to announce a series of measures aimed to raise productivity by up to 7 per cent next year.

The figures disappointed investors, who had expected earnings of about SKr1.8bn, and SAS's shares fell SKr2 to SKr63 on the Stockholm bourse.

Profits were flat in the first six months but fell heavily in the third quarter, from SKr1.1bn to SKr210m, in spite of a 3 per cent increase in passenger traffic.

Mr Gunnar Reitan, chief financial officer, said the airline had been squeezed by stiffer competition in its Swedish and Danish domestic markets, where traffic declined 2 per cent. In addition, two new operators started services on the routes between Scandinavia and London and Brussels in the third quarter.

SAS, which is owned by Swedish, Norwegian and Danish interests, said a fall in nine-month operating revenue from SKr26.7bn to SKr26bn was chiefly due to the strength of the Swedish krona. Traffic revenues advanced 6 per cent disregarding currency effects.

The group said available seat kilometres rose 8 per cent, mainly in Norwegian domestic traffic and key European business destinations. It said growth on European and intra-Scandinavian routes was in line with the average of European airlines this year.

Increased capacity, higher fuel prices, and a closer focus on service punctuality and regularity combined to push unit costs up 6 per cent in the third quarter, and 4.4 per cent over the nine months.

Mr Reitan said a comprehensive productivity drive would be mounted to rein in costs. The measures include the division of SAS's production arm into two smaller units – one focused on technical operations and the other on flight and cabin crew operations – but would not result in job losses.

Mr Reitan said growth next year would open the potential for 6-7 per cent in productivity gains. He said the airline hoped to harness the full effect but acknowledged the outcome would depend on SAS's trade unions, which have a reputation for militancy and in 1995 cost the company between SKr350m and SKr400m in industrial action.

Operating profits fell from SKr2.6bn to SKr1.3bn. SAS's Euro-Class business traffic increased by 4 per cent, while tourist class advanced 6 per cent. Yields (average passenger revenue per passenger kilometre) fell 6 per cent due to currency factors but increased 1 per cent on an underlying basis.

Growth in traffic was not, however, fully matched by increased passenger numbers. SAS's load factor, measuring filled seats, fell 1.4 per cent.

The company warned in August that full-year profits would be "somewhat weaker" than last year's record SKr2.6bn.

Yesterday it said fourth quarter profits would be in line with last year, taking 1996 pre-tax profits to SKr1.7bn.

Gazprom chief experiences revolution in outlook

Russian gas group knows it must adopt western standards of openness if it is to attract more funds

For 40 years, the diminutive Mr Rem Vyakhirev has worked in the Russian gas industry, where managers are judged by the scale of the fields they develop rather than by the size of the profits they produce.

But late in his professional life, Mr Vyakhirev, Gazprom's chairman, admits to experiencing a revolution in his outlook. The two weeks he spent recently touring around 14 of the world's financial centres to market 1.15 per cent of his company's shares to foreign investors has clearly left its mark.

Mr Vyakhirev now appears well-versed in the language of shareholder accountability, and claims that within 10 years Gazprom will have built better relations with its new-found investors than western multinationals have with their shareholders. "Our shareholders will definitely have earned more money," he says with a chuckle, in an interview in London.

Mr Vyakhirev promises that over the coming weeks the giant gas company, which controls one-third of the world's proven reserves, will conduct a sweeping review of its businesses. Younger, more commercially-minded managers will be given greater responsibilities; new budget disciplines will be introduced; transfer pricing between subsidiaries will be changed to reflect market realities; and underperforming businesses will be sold. Gazprom's 375,000 workers could be in for a shock following a strategic review on December 5.

"We have already discovered a considerable number of unprofitable investments and activities," Mr Vyakhirev says. "We will sell companies that do not perform, especially in the agricultural sector."

The natural suspicion, however, must be that Gazprom is adapting its language to its audience. The country's biggest company does not talk this way in its native land, where it takes pride in fulfilling its social obligations of supplying cut-price gas to remote communities and the agricultural sector.

It has also proved itself capable of wrapping itself in the nationalist flag, denouncing foreigners for their malign influence in undermining the country's biggest hard-currency earner.

Back in Russia, Mr Vyakhirev's reflexes as a Soviet-era manager and one-time Communist party member are more in evidence than signs of his new mentality as a born-again capitalist.

But there are reasons to believe the striking change of culture that appears to be fermenting within Gazprom could be for real. The group still needs foreign capital to realise its ambitions and now appreciates it will have to adopt western standards of transparency if it is ever to attract it.

Mr Vyakhirev says the $429m of capital that Gazprom raised in its latest share offering is but a drop in the ocean of its potential needs, arguing the company will need to raise at least $25bn to develop its vast reserves in the Yamal peninsula.

"The fact is that we do not have enough potential buyers of our shares on the domestic market. But on the world market anyone can buy shares in Gazprom – apart from poor people."

Gazprom's capital-raising plans are certain to accelerate next summer, when the company is planning to produce a set of internationally-acceptable accounts and is likely to have established a presence in the world's debt markets via a debut eurobond issue.

But if Gazprom is real about its intentions to transform itself, a host of ticklish political issues are sure to follow.

Mr Vyakhirev says he was amazed by the extent of western investors' interest in Gazprom's relations with the government and its supposedly benign tax treatment. There is certain to be increased investor pressure on Gazprom to establish its independence from government and clarify the obligations and responsibilities.

So far, Mr Vyakhirev shows few signs of countenancing any such change, boasting in a press conference in London about how many *Gazpromtsi* (Gazprom employees) now enjoy senior positions in the government.

A graphic example of these intimate links was the way Mr Peter Rodionov, Russia's newly-installed energy minister and a former Gazprom director, sat silently next to his former boss in the interview dutifully laughing at his jokes.

But the other chief consequence of Gazprom's increasing commercialisation could be a higher intensity of competition in the European gas market, where the Russian company already controls a 24 per cent market share.

While international investors may applaud the emergence of a more commercially-oriented company, international energy operators may grow increasingly disconcerted at its growing aggression.

Mr Vyakhirev seems determined that Gazprom will not just supply gas to the German border but distribute it to "the grandmothers and power plants" that are its end-users, capturing a larger share of downstream profits.

Gazprom's Wingas joint venture with Wintershall, a subsidiary of BASF, has already taken 10 per cent of the German gas distribution market and started squeezing the dominant Ruhrgas, which is owned by, among others, Exxon, BP and Shell.

Mr Vyakhirev says similar ventures are planned in all the European markets where Gazprom operates. "Just as a pig knows which trough has the best food, so customers should know the best place to go to buy cheap gas."

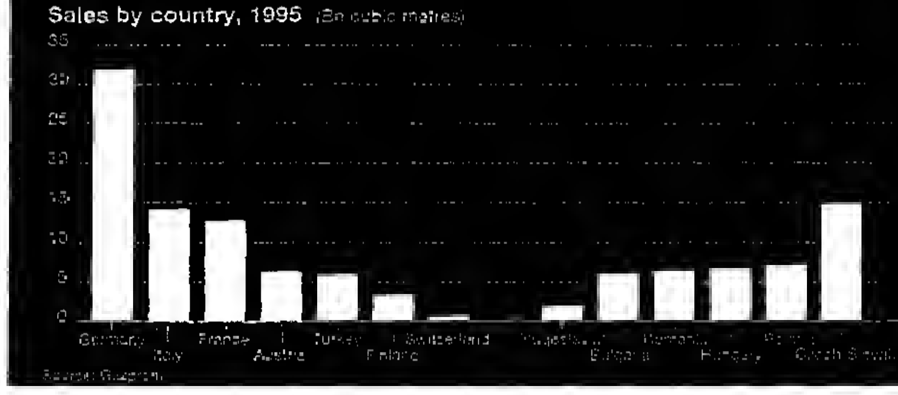
John Thornhill and Andrew Gowers

Expanding in Europe

Sales through joint ventures

(Bn cubic metres)	1995 sales	Projected 2005-10	Current sales by JVs	Projected JV sales
Germany	32.1	45.9	13.8	22.5
Italy	14.3	27.0	0	5.0
Turkey	5.7	20.0	0	15.0
Via UK interconnector	0	5.0	0	20.0
Greece	0	5.4	0	5.4
Finland	3.2	5.0	3.0	5.0
Poland	7.2	16.0	0	8.0
Hungary	6.3	9.0	4.3	9.0
Romania	5.1	12.0	0	12.0
Bulgaria	2.0	4.0	0	4.0
Yugoslavia	2.0	4.0	0	4.0
TOTAL	79	152.4	21.1	90.4

Sales by country, 1995 (Bn cubic metres)



Source: Gazprom

Rem Vyakhirev chairman

Wella share price hurt by unexpected fall in profits

By Sarah Althaus in Zurich

Shares in Wella, the German hair care and cosmetics company, fell almost 7 per cent yesterday after the group announced an unexpected 4 per cent fall in pre-tax profits from DM88.1m to DM84.4m ($56.2m) in the first nine months.

Analysts said they had expected the group, which suffered a dramatic drop in its 1995 earnings, to show a stronger recovery in the period. They were also disappointed with Wella's forecast for only slightly higher pre-tax profits for the full year. The preference shares closed DM59 lower at DM810.

"The sales figures were quite positive but the earnings were terrible," Ms Christine Dienhart, analyst at Vereins Bank Research in Munich, said. "Obviously margins are under pressure and restructuring costs are still weighing on results. ... Where have the profits levels of 1994 gone?"

Last year, net profits at the Darmstadt-based group plummeted 52 per cent to DM74.2m due to weak markets, a strong D-Mark and a badly handled manufacturing reorganisation. This was compounded by problems at its businesses in China, Russia, the UK and US.

Mr Jurg von Craushaar, chairman, said most of the sources of last year's problems had been eliminated and that Wella's strategy of focusing on its core hair care business was beginning to bear fruit. He noted that last year's profits had been bloated by the release of DM35m from unneeded reserves, and excluding these profits in the first nine months this year had climbed 59 per cent.

Mr Craushaar said the D-Mark had been neutral in the first nine months and a depreciation of the yen had been offset by the appreciation of other currencies.

Overall sales increased 10.3 per cent from DM2.5bn to DM2.75bn. For the full year, turnover was expected to increase between 7 per cent and 10 per cent, compared with 3 per cent growth in 1995.

Job cuts and new management helped Russian activities return to the black.

Higher oil prices lift OMV

By Eric Frey in Vienna

Higher oil prices lifted pre-tax profits at OMV by 17 per cent, from Sch1.92bn to Sch2.24bn ($212m), for the first nine months of 1996, the Austrian oil and gas group said yesterday. Mr Richard Schenz, chairman, predicted a similar increase for the full year and gave a positive outlook for 1997.

"Our success in exploration and production makes this segment a pillar for our business," he said in reference to OMV's recent investments in oil and gas production in the North Sea, Libya and Pakistan, where several fields go on stream in 1997 and 1998. Domestic oil production also remains profitable, he added.

However, the increase in 1996 net income will be dampened by a change in Austrian tax laws which prevents OMV from deducting losses carrying forward from their 1996 and 1997 tax bills, Mr Schenz said. But these losses will again be deductible in 1998, so OMV is "only forgoing interest," he said.

Nine-months operating earnings climbed 9 per cent, from Sch3.03bn to Sch3.21bn, amid better results from exploration and production, and from the chemicals and plastics divisions.

These increases offset the strong decline in refining, where lower margins and a switch in OMV's accounting practices for inventories caused operating income to tumble from Sch470m to Sch20m.

OMV's marketing division, which includes its network of petrol stations in Austria and several neighbouring countries, swung from an operating loss of Sch60m last year to a profit of Sch160m.

OMV will continue adding to its 324 petrol stations in Bavaria, Hungary, Slovakia, the Czech Republic and Slovenia, Mr Schenz said.

Nine-months group sales advanced 3 per cent, from Sch54bn to Sch55.9bn, while group assets climbed from Sch52bn at the end of 1995 to Sch64bn.

LEGAL NOTICES

TAYLOR & CHURCHER (SUTTON) LIMITED

(IN ADMINISTRATIVE RECEIVERSHIP)

NOTICE IS HEREBY GIVEN pursuant to Section 48(2) of the Insolvency Act 1986 that a meeting of the unsecured creditors of the above-named company will be held at [illegible] on Friday 6th December 1996 at 11.00am for the purpose of having laid before it a copy of the report prepared by the Joint Administrative Receivers under section 48 of the said Act. The meeting may, if it thinks fit, establish a creditors' committee to exercise the functions conferred on it by or under the Act.

Creditors are only entitled to vote if

(a) they have delivered to us at the address shown above no later than 12.00 hours on the business day before the meeting, written details of the debts they claim to be due, and

(b) there had been lodged with us any proxy which the creditor intends to be used on his behalf.

Dated this 15th November 1996

[illegible]

Joint Administrative Receivers

EUROPEAN NEWS DIGEST

Mannesmann sales ahead 6%

Mannesmann, the German industrial group, reported a 6 per cent increase in sales to DM23.9bn ($15.91bn) for the nine months to end-September, from DM22.6bn a year ago, driven by strong growth in the automotive technology and telecommunications divisions. The company did not report earnings data but it said it expected 1996 operating profits to be slightly ahead of last year.

The telecoms division achieved a 56 per cent rise in turnover to DM3bn, around 12 per cent of Mannesmann total sales. The D2 mobile telecoms unit increased customers by 653,000 to 2.1m. The machine and plant construction division registered a 4 per cent fall in orders to DM12.3bn. Orders at the pipeline and trading division were down by 8 per cent to DM5.1bn. Total orders during the period remained static at just under DM27bn, about DM3.1bn higher than sales.

Wolfgang Münchau, Frankfurt

BTA sale raises Es20.5bn

Portugal yesterday raised Es20.5bn ($135m) from the privatisation of the state's remaining 13.2 per cent holding in Banco Totta e Açores, the main bank in the country's third largest financial group. Demand was more than six times greater than the 1.8m shares sold in a public subscription offer at a base price Es2,630 each, 2.7 per cent lower than Monday's closing price of Es2,705. BTA employees and small savers were offered a 10 per cent discount. A further 5.3m shares were sold directly to international institutional investors at the same price and 800,000 shares were bought by Portuguese institutions.

Last year Mr António Champalimaud, Portugal's richest individual, bought control of BTA from Banco Español de Crédito (Banesto), the Spanish bank, whose 50 per cent holding was contested under Portuguese legislation whicb limited foreign ownership to 25 per cent.

Peter Wise, Lisbon

Banco di Napoli draws interest

Rothschild Italia, which is advising the Italian Treasury on the sale of its 60 per cent stake in Banco di Napoli, said yesterday that six financial institutions had expressed interest in entering the tender. This emerged after only one bank, Banca Nazionale del Lavoro, in alliance with the insurance group Ina, had come forward publicly oo Monday, the deadline for declaring an intention to participate.

The six, comprising three Italian institutions and three international concerns, will be given access to information on Banco di Napoli. Although banks have until December 20 to present a definitiva offer, those committing themselves by December 2 to present a bid will receive a pre-emptive right of acquisition over other participants. The Treasury is to underwrite a L2,000bn ($1.32bn) capital increase as soon as a commitment to make an offer has been received. *John Simkins, Milan*

Shake-up plan for Thyssen

Mr Dieter Vogel, chairman of Thyssen, will present a wide-ranging restructuring plan to the supervisory board on Friday, according to a report to be published in Manager Magazin, the German monthly. "Chairman [Mr] Dieter Vogel will submit a concept that will see Thyssen involved in the largest restructuring in its history," the magazine said. The company would be restructured and concentrated on fewer core activities, the magazine reported. Any division that cannot produce a return of 12.5 per cent would be restructured, sold or shut down. Following the supervisory board meeting on Friday, Thyssen will announce tha provisional dividend for the year to September and six months to September results. Thyssen refused to comment. *AFX News, Frankfurt*

Austrian steelmaker slides

Austrian high-grade steelmaker Böhler-Uddeholm said net profit in the first nine months of 1996 fell 22 per cent to Sch632m ($59.8m) and posted a pre-tax profit of Sch890m, down from Sch966m. Böhler still aimed to post a flat pre-tax profit for the full year. Last year it reported pre-tax earnings of Sch1.35bn. Sales at nine months were Sch13.28bn, down from Sch13.84bn. *Reuter, Vienna*

Tampella to be renamed

Finnish engineering group Tampella said its board proposed that the company be renamed Tamrock. Mining equipment maker Tamrock is Tampella's biggest business group. Tampella's intention is to see the change take effect early in 1997 when Tamrock, following to an earlier decision, will be merged with Tampella. Tamrock's January-August net sales at FM2.27bn ($501m) accounted for nearly 80 per cent of Tampella's net sales.

Reuter, Helsinki

Deutsche Bank arm retitled

Deutsche Bank, Germany's biggest bank, said it is changing the name of Bain, its Australian investment house, to Deutsche Morgan Grenfall to bring it in line with its worldwide investment banking operation. Bain, in which Deutsche Bank bought 50 per cent in 1989 and took full control in 1992, employs 1,000 people and last year mada a pre-tax profit of A$80m (US$63.32m).

Mr Klaus Albrecht, chief executive of Deutsche Bank in Australia, said the change would not alter the structure or focus of the bank's business in Australia. Bain is the third largest investment bank in Australia after Bankers Trust and Macquarie Bank. Deutsche Bank said the Bain name would still be used for financial planning services in Australia. *Andrew Fisher, Frankfurt*

DMG takes 100% of SA stockbroker, Page 19

NCC sharply ahead

NCC, the Swedisb construction company, reported a sharp rise in profits after financial items to SKr406m ($61.47m) in the first nine months of 1996 against SKr167m in the year-ago period. The company said full-year profit after financial items would be somewhat better. Sales increased from SKr11.97bn to SKr16.47bn. NCC said the improvement was mainly due to increased earnings from construction and real estate operations and an improvement in Silja, tha ferry operations division.

AFX News, Stockholm

Downturn at Lenzing

Lenzing, the Austrian viscose producer, reported an unspecified loss for the first nine months of 1996 because of worldwide over capacity and low prices. The company, which is majority owned by Creditanstalt and Bank Austria, also predicted a deficit for the full year.

Group sales remained steady at about Sch6.5bn ($94m). Lenzing predicted that business will improve only slowly next year but its drastic cost-cutting measures should help to bring a turnround in 1998. *Eric Frey, Vienna*

■ Allgemeine Gold-und Silberscheideanstalt, a subsidiary of Degussa, the German chemicals group, will propose a DM11 dividend for the year to September, plus a special dividend of DM50 at its shareholder meeting on February 28. Degussa said the unit would make a 1-for-7 rights issue with the new shares to be priced at DM275 for each nominal DM50 share. It said shareholders should return the special dividend to the company by participating in the rights issue. *AFX News, Frankfurt*

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com.

COMPANIES AND FINANCE: INTERNATIONAL

Cerj sale to realise at least R$465m

By Geoff Dyer in São Paulo

Brazil's privatisation programme will receive a substantial lift today when the state of Rio de Janeiro sells a 70.3 per cent stake in Cerj, an electricity distribution company, for a minimum of R$465m ($451m).

A total of 34 companies, including several foreign utilities, have pre-qualified to bid for the majority stake in Companhia de Eletricidade do Estado de Rio de Janeiro, which will be sold by a sealed-envelope auction at 2pm local time.

The auction follows the sale in May of a 60 per cent stake in Light, another Rio de Janeiro distribution company, which raised R$2.22bn.

Electricité de France, along with two US partners, emerged as the largest shareholder in Light, taking a 35 per cent stake.

A successful sale of Cerj would give a lift to other planned privatisations, which include large parts of the energy and telecoms industries and the mining group Companhia Vale do Rio Doce, which is due to be sold early next year.

The auction is to go ahead despite the absence of a regulatory structure for the electricity industry. A bill to create a regulatory agency, to be called Aneel, has still to be passed by Congress.

Because of the political uncertainty, the total market value set for Cerj, of R$640m, is at a discount to the company's market capitalisation of about R$750m – a minority of the shares are already listed on the Rio stock exchange.

However, analysts said the announcement, earlier this month, that Light would be able to increase its tariffs next year in line with inflation had eased concerns that the industry would remain subject to political interference under private ownership.

Analysts expect the leading bidders to include EdF, which was in a consortium with Houston Power Industries and AES Corporation for the Light privatisation, and Escelsa, the distribution company in the state of Espírito Santo, which was privatised last year.

Endesa, the Spanish electricity utility, is also a bidder, in partnership with Chilectra of Chile.

Cerj, which has 1.2m customers and provides about one-quarter of the state's electricity, incurred a loss of R$62m in 1995 on turnover of R$500m.

Staff numbers have declined from 5,700 last year to 4,400.

Ms Luciana Portolano, analyst at HSBC James Capel in São Paulo, said Cerj had good prospects because the regions in the state of Rio – where its operations are concentrated – were growing quickly.

However, analysts said the company would require significant investment.

The state government is also offering 7.8 per cent of the shares to Cerj employees at a 30 per cent discount to the minimum price.

Investors shun Ticketmaster IPO

By Lisa Bransten in New York

Investors gave the cold shoulder to yesterday's initial public offering of Ticketmaster Group, the US-based automated ticketing company, in what may be a sign that the indiscriminate demand for new shares may be waning.

Shares in Ticketmaster were priced late on Monday at $14½ and by midday yesterday had fallen to $14¼. Although the drop was modest, it is unusual because companies and their bankers generally price new offerings so that they rise in first-day dealings.

Ticketmaster is the dominant provider of automated ticketing in the US and also has operations in the UK, Australia and Mexico with revenues of $161m last year.

Heavy debt and expansion into new areas, however, have caused the company to lose money in the past two years and in the first half of this year.

Mr David Menlow, president of IPO Financial Network, a research firm based in Springfield, New Jersey, said the poor performance of the offering was a sign that investors are no longer as willing to jump at a well-known brand name regardless of the fundamentals as they were earlier in the year.

Also, the company planned to use only about half of the $105m raised in the offering to pay down its $183.6m in long-term debt.

Up to the middle of this month, about $45bn in equity has been raised in the US – excluding the sale of shares in closed end funds of real estate trusts – surpassing the previous record of $34bn for all of 1993, according to Securities Data. Much of it came last month, when a record $7.1bn was raised in 108 deals.

Signs are emerging, however, that quality of companies coming to market may be dropping and the market's ability to absorb new issuance slowing.

The average IPO issued in October rose just 11.3 per cent through the end of that month, versus a gain of 22.4 per cent, by shares issued, in September, according to Renaissance Capital, an IPO research firm.

"I think we're seeing a little bit of market fatigue," said Mr William Smith, of Renaissance.

He said the number of new deals ready to come to market is dropping, which would be traditional in a normal year, but is different this year because "we have blown through every other seasonal pattern."

DMG takes 100% of SA stockbroker

By Roger Matthews in Johannesburg

Deutsche Morgan Grenfell, the London-based investment banking arm of the Deutsche Bank group, has agreed to buy the 50 per cent it does not own of the South African stockbroker Ivor Jones, Roy.

Sir John Craven, chairman of Deutsche Morgan Grenfell, said yesterday the acquisition was designed to accelerate the development of an integrated investment banking facility in South Africa.

"As prospects for corporate activity improve, it is important that we are able to offer South African companies and institutions a fully integrated platform from which they can access capital markets domestically and overseas, as well as introducing foreign companies to South Africa," he said.

Deutsche Morgan Grenfell bought the first 50 per cent of Ivor Jones, Roy at the start of this year. Sir John said it had not expected at that time to acquire the remaining stake so quickly.

"Ivor Jones, Roy was a good business in itself, but we were not interested in just getting into South African broking. The equities operations have prospered but there is a lot more happening in South Africa," he said.

This included pnblic sector restructuring and privatisation, plans by some South African conglomerates to unbundle in order to focus on core activities, project financing for large infrastructure projects, and the interest shown by foreign companies in re-establishing a presence in the country, or investing for the first time.

Sir John said the sharp fall in the value of the rand this year implied some political uncertainty, and this had inhibited foreign investment. But he believed interest was still strong and Deutsche Morgan Grenfell was talking to at least eight companies which were considering investing.

From January, Ivor Jones, Roy will he called Deutsche Morgan Grenfell, with Sir John as chairman and Mr Ivor Jones as his deputy.

Chipmunks to get new lease of life with MCA

By Christopher Parkes in Los Angeles

Mr Edgar Bronfman, MCA chairman, has hired Alvin, Simon and Theodore to fast-forward the drinks and entertainment group's drive into the children's market.

Otherwise known as The Chipmunks, the 38-year-old trio of ground squirrels who pioneered the popularisation of silly songs played at high speed, will be given a new lease of life in MCA films, television programmes, records and as theme park "greeters".

The company has paid an undisclosed sum for a 35 per cent stake in Bagdasarian Productions, run by Mr Ross Bagdasarian Jr, son of the man who invented the characters and played the voice of their "father" on records.

The holding brings with it exclusive rights for at least 10 years as long as MCA maintains a holding of at least 25 per cent. The deal ties up one of the best-known "character" properties still unattached to a leading entertainment group, and will pitch Alvin, Simon and Theodore against Walt Disney's Chip 'n' Dale in the small, furry rodent market segment.

Despite continuing steady sales of music and home videos – four of their 11 albums have sold more than 1m copies – the trio has lost touch with Walt Disney's market leaders. Their last animated feature was released some 10 years ago.

The Chipmunks' forte is song parodies, often chirrupped in company with established singing stars.

It is understood Mr Bronfman, who writes and sings ballads under assorted aliases and with uneven success, wants to score at least one big hit before he considers joining the line-up.

INTERNATIONAL NEWS DIGEST

HP shares trade higher after result

Shares in Hewlett-Packard, the US electronics group, rose $1⅞ to $51¼ in early trading yesterday, despite Monday's unveiling of fourth-quarter earnings below Wall Street estimates. Earnings fell 4.4 per cent in the quarter to October, from $678m, or 64 cents a share, a year ago to $648m, or 62 cents. However, sales rose 12 per cent, from $9bn to $10.1bn. Wall Street analysts' estimates had been of 64 cents a share.

The profit decline reflected the effects on unit sales and margins of a renewed bout of price-cutting. However, the company said it was encouraged by a recovery in the order book to $10bn, with US demand rising 10 per cent to $4.7bn after a 4 per cent gain in the previous quarter, and foreign orders up 20 per cent, compared with 11 per cent.

It also reported progress on containing growth in operating expenses, which rose 11 per cent in the quarter, compared with 15 per cent in the three months to the end of July. Inventories were also reduced. Net income for the 1995-96 financial year rose 6 per cent to $2.6bn on revenues up 22 per cent at $38bn. Earnings per share rose from $2.31 last year to $2.46.

Christopher Parkes, Los Angeles

Food lifts George Weston

Strength in the food processing and distribution units at George Weston, the Canadian conglomerate, offset declines in fisheries and forest products in the third quarter to September.

The Weston family's main Canadian holding company posted net profit of C$54.5m (US$40.6m), or C$1.21 a share, up 4.2 per cent from C$52.3m, or C$1.11, a year earlier. Sales rose 4.4 per cent to C$3.82bn. Weston said second-half overall earnings would be up from the 1995 period.

Robert Gibbens, Montreal

Imperial Oil raises payout

Imperial Oil, Canada's biggest integrated energy company, has lifted its quarterly dividend to 55 cents a share from 50 cents. Imperial, which is 70 per cent owned by Exxon, the US-based energy group, posted earnings of C$588m (US$438m) in the first nine months of this year, up from C$421m a year earlier, largely because of a C$250m tax refund.

Third-quarter earnings fell 28 per cent as a result of competition in the retail petroleum products market, which offset higher oil and natural gas prices. However, Imperial has been an investor favourite. In the third quarter it used cash reserves to buy back 13 per cent of its shares for C$1.44bn, and has been buoyed by the bullish outlook for energy prices. It plans to raise output over the next year. The shares gained 70 cents to C$60 in early trading in Toronto yesterday.

Bernard Simon, Toronto

■ Groupe Bull, the French computer company, and its US shareholder Motorola have signed a deal on the distribution of PowerPC systems. Motorola is to manage distribution of PowerPC-based stations and servers in North America, while Bull handles Europe, South America and Africa.

AFX News, Paris

Trouble in paradise: Republic Bank and Colonial Life Insurance have resumed hostilities in the past week Picture: Colorific

Heated row over Colonial ambition

Trinidad and Tobago's largest bank battles biggest shareholder

A corporate storm is brewing in Trinidad and Tobago after the government's failure to end a dispute between two of the country's largest companies, ooe of which appears intent on taking control of the other.

Republic Bank, the largest commercial bank in the country, has been trying to ward off attempts by Colonial Life Insurance, its largest shareholder, to increase its shareholding and install more of its nominees on the bank's board.

Mr Brian Kuei Tung, the finauce minister, and Mr Ralph Lawrence Maharaj, the attorney-general, recently met Republic Bank and Colonial Life, seeking an end to a six-month stand-off. But both companies are at daggers drawn in readiness for a crucial annual general meeting which must be held by the end of December, and which will decide the issue.

Both companies have been unimpressed by Mr Kuei Tung's efforts at mediation, which included a plan to appoint a foreign mediator. He said, however, that he would not do so until the situation was calmer, and suggested that both seek a negotiated solution.

Republic Bank officials claim that the efforts of Colonial Life – one of the Caribbean's larger companies – to increase its 34 per cent stake in the bank, and to install more of its nominees on the bank's board, constitute an attempt at a hostile takeover.

Colonial Life has denied it is seeking a takeover, but contends that a "strong alliance" between the two companies would be mutually beneficial.

The dispute is made more complex by the interpretation of legislation which seeks to cap shareholdings in banks in Trinidad and Tobago. Colonial Life took a 46.7 per cent stake in Republic Bank in 1989 when it bought the 41 per cent holding of Barclays Bank of the UK.

After tha acquisition, Republic accused Colonial of breaching an agreement that it would reduce its stake to 34 per cent and not change the composition of the board, except to elect one representative. The insurer eventually complied to the extent of cutting its stake to 34 per cent.

The row erupted again last year when a new banking act capped the shareholdings of individuals and institutions to 25 per cent in a commercial bank, unless permission was given by tha central bank.

Republic has been arguing that Colonial Life's stake in the bank should be cut to 25 per cent on the grounds that it is not "fit and proper" to hold more. Republic has now gone further and is asking for more sweeping changes to cap holdings in banks by individuals and entities at much lower levels.

An attempt to exert more influence at Republic Bank appears part of a tradition of aggressive expansionism by Colonial Life.

In the past 10 years, Mr Lawrence Duprey, chairman of Colonial, has transformed it from a quiet, family-owned business into one of the region's better known conglomerates.

The insurer bought the operations of Citibank and Chase Manhattan in neighbouring Barbados, creating an expanding commercial bank which has branches in other eastern Caribbean countries.

Colonial is also involved in a methanol plant being built in Trinidad. It has constructed and operated hotels in St Lucia and Grenada, and has a concession from the Guyana government for commercial logging.

The fight over control of the bank appears to have much to do with the fact that it has been one of the more profitable financial institutions in the Caribbean.

As the largest commercial bank in Trinidad and Tobago, Repnblic has a deposit base representing 40 per cent of the country's commercial banking assets.

In the year to September, Republic reported total assets of TT$10.7bn (US$1.8bn), with earnings of TT$136.8m, 25 per cent more than a year earlier.

A temporary lull in the battle between Colonial and Republic was achieved in August when both agreed to await the general meeting scheduled for next month. However, Colonial Life has not publicly responded to charges by Republic that the insurer violated conditions of the truce by purchasing additional shares in the bank, including some from a pension fund which Colonial Life manages.

These purchases have in effect lifted Colonial's stake to 41 per cent, Republic Bank officials claim.

The bank has countered by refusing to register the share purchases, and is repeating its demand that Colonial's holding be reduced to 25 per cent. In the past week, the minister's hope for calm and for a diplomatic determination have been scuttled by a resumption of hostilities through paid advertisements and corporate statements.

Canute James

Economy holds back Japan trading houses

By Daniel Bögler in Tokyo

Declining interest payments and a weaker yen boosted pre-tax profits at Japan's big general trading houses, but the underlying picture in the six months to September was one of slow growth as the domestic economy remained sluggish.

The sales decline reported by the big five – Mitsubishi, Mitsui, Sumitomo, Itochu and Marubeni – is misleading, ss it was caused by changes in the way they account for their precious metals trading activities. However, Mitsubishi, the largest on a consolidated basis, said that, even excluding the accounting effect, its unconsolidated half-year sales would have risen less than Y100bn ($897m), or 2 per cent.

Mr Tetsuo Kamimura, executive vice-president, said: "Although the domestic economic environment remained difficult and the outlook uncertain, our broad business base has provided stability and ws remain on course to meet our initial projections for the full year."

Operating profits, a more reliable guide to underlying performance than the headline pre-tax figures, revealed a wide divergence. The best showing came from Nisshn Iwai, tbe sixtb-largest general trader, with a 33 per cent jump in operating profit. It was also the only company to revise upward its full-year forecast, though ths change was marginal.

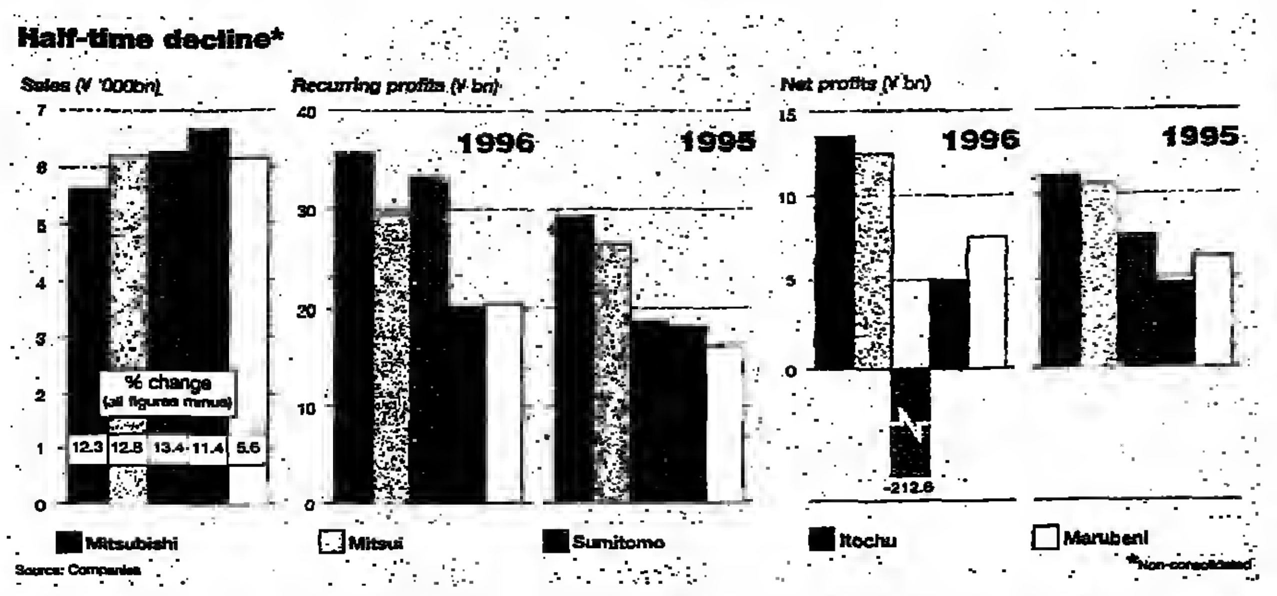
Sumitomo reported a 26 per cent increase at the operating level, while Mitsui posted a 7 per cent increase in its operating profits.

By contrast, Itochn and Marubeni saw small declines at the operating level, largely because of increases in administrative costs, which analysts attributed to a lack of cost cutting.

Mitsuhishl, which hss been mnch more aggressive and reduced its workforce 13 per cent over the past three years, nsvertheless turned in the worst figures, with s 51 per cent slump in operating profits. This was the result largely of a Y5bn provision against Nippon Leisure Card Systems, a maker of pre-paid cards for pachinko, or Japanese pinball, in which it has a 19 per cent stake.

Mitsubishi, Mitsui and Itochu all continued their policy of provisioning against problem investments. The first two declared extraordinary losses of Y18bn and Y7bn respectively, which lowered their net profits, while Itochu charged Y6bn against its pre-tax results. Along with Sumitomo, however, Itochu also sold securities, realising hidden gains to support its results.

All five forecast lowsr turnover for the full year to Marcb, ranging from Itochu's Y13,500bn to Mitsubishi's Y11,500bn, but slightly higher pre-tax profits. Mitsubishi expects pre-tax profits of Y70bn, up 5 per cent, while Mitsui's should come out 3 per cent bigher at Y62bn. Itochu sees s 1 per cent sdvance to Y41bn with Marubeni just bshind at Y40bn, a 2 per cent increase. All five intend to maintain dividends at last year's level.



Coles Myer shareholders attack board on strategy

By Nikki Tait in Sydney

Shareholders in Coles Myer, Australia's largest retailer and the focus of recent concern over corporate governance standards, yesterday vented their anger at the annual general meeting over the group's lacklustre performance.

For more than four bours they quizzed Mr Nobby Clark, Coles chairman, over issues ranging from tbe sharply increased A$2.8m (US$2.2m) salary paid to Mr Peter Bartels, managing director – despite a 34 per cent fall in Coles' profits – to the A$150m cost of launching a specialist toy chain in an attempt to compete with Toys R Us, the US retailer.

The first three hours were focused on re-election of directors, with Coles putting forward a slate which included Mr Solomon Lew, the company's former chairman.

The volume of supply transactions between Mr Lew's private companies and Coles has been a bone of contention for years. More recently, there has been controversy over the "Yannon" transaction, a complex set of share deals which cost Coles A$18m and benefited interests associated with Mr Lew by a similar amount. The matter is still being reviewed by the Australian Securities Commission, the industry watchdog.

"What we need are directors whose focus is on our company's profitability and not directors whose loyalties are, as Mr Lew's are, so significantly divided," one shareholder said.

At one stage, Mr Clark warned questioners that they had only qualified privilege in a shareholders' meeting, adding ominously that if they overstepped the mark, they "could be in trouble". A handful of shareholders spoke up in support of Mr Lew, but were easily outnumbered by the dissenters.

The re-election of both Mr Lew and Mr Nick Greiner, another Coles director, appeared to be lost on a sbow of bands, but all elections were put to a poll and successfully carried.

Mr Clark suggested that some improvement in Coles' retail performance might be in view.

"Last year we achieved enormous gains behind the scenes in our retail operations. The impact of these gains is not yet evident on our bottom line, but provided we bsve a reasonable Christmas, you should start to see the impact this financial year," he said.

But he conceded that the group did not expect any "significant lift in retail sales across Australia before mid-1997".

Coles shares fell seven cents to A$4.63.

In 1995-96, Coles made an after-tax profit of A$280.4m on sales of A$18.2bn. The big institutional shareholders, who led the push for better corporate governance standards last year, have significantly reduced their shareholdings over the past 12 months.

Nobby Clark: quizzed for four hours by shareholders

Mixed results from Birla group units

By Tony Tassell in Bombay

A series of mixed half-year results from the Birla group, one of India's leading industrial housss, has underscored a trend of slowing corporate earnings in the country.

Century Textiles and Industries, one of the flagships of tbe cement-to-textiles group controlled by the Birla family, surprised the market with a deeper than expected fall in profits in the six months to September 30.

First-half net profit fell from Rs1.02bn last year to Rs341.8m ($9.56m), as interest costs jumped from Rs190.6m to Rs783.5m

"No-one had expected numbers anywhere near as low as this," said one analyst with a local brokerage.

Two other Birla blue-chips, Grasim Industries, the steel-to-cement company, and Hindalco Industries, the aluminium producsr, also reported falls in net profit, albeit in line with expectations.

Grasim's first-half net profit fell from Rs1.68bn to Rs1.47bn desplte a rise in operating profits, while Hindalco posted s marginal dip in earnings, from Rs2.088bn to Rs2.035bn

The only hright spot for the group in the current reporting season was s rise in first-half net profit for Indian Rayon and Industries, the cement to carbon black manufacturer.

Indian Rayon increased its first-half net profit 10.6 per cent, from Rs902.5m last year to Rs998.4m.

This result was in line with expectations, although it represented a slowdown from the 23.5 per cent growth seen last year.

Analysts said the mixed results reflected the group's sensitivity to falls in commodity prices in areas such as steel, cement and petrochemicals.

Most analysts said the results might reinforce a downwards rating of the group by investors over the past 12 months amid concerns about the extent of its diversification, its complex structure of cross-shareholdings, expansion plans and management style.

Reflecting this, shares in Century Textiles tumbled 10 per cent, to Rs2,325 before stock exchange authorities imposed a cap on any further falls, while Hindalco dropped Rs14.75 to Rs569.75.

Indian Rayon bucked the trend, ending up Rs2 at Rs275, but Grasim shares also fell, by Rs10 to Rs388.50, before the release of its results after the close of trading.

However, one analyst said that the results for Grasim might not be as bad as the headline net profit fall suggested.

Mr Jal Irani, of brokers Jardine Fleming india, said Grasim's operating profits actually grew 11 per cent in the first balf.

He said that the fall in net profit was mainly because of a drop in "other income", from Rs1.13bn to Rs723.2m.

"They are good results. Any weakness should bs ussd as an opportunity to buy," Mr Irani said.

Mitsui, Bertelsmann discuss link

By Michiyo Nakamoto in Tokyo

Mitsul and Bertelsmann, the German medla group, are dlscussing the possibility of a wide-ranging alliance in the information and entertainment sectors which would span Europe, Asla and the US, the Japanese trading company said yesterday.

As a first step, Mitsul is paying DM2.8m ($1.86m) to acquire a 35 per cent stake in T1 New Media, a Hamburg-based software company run by Bertelsmann. Other joint deals are under discussion, Mitsui said.

The investment by Mitsui in T1 and the discussions with Bertelsmann highlight the growing involvement of Japan's diversified trading companies in international media and software markets. It also gives Bertelsmann a partner in the Japanese market for information and eotertainment software, which could in turn become a gateway to other Asian markets.

Japan's trading companies, including Mitsui, have been enthuaiastic investors in cable TV, film distribution and other information and entertalnment-related businesses, which are expected to provide an engine of economic growth in the years ahead.

Mitsui has a 13.6 per cent stake in PerfecTV, a Japanese digital, multi-channel satellite broadcaster which started services last month. It is also Involved in CD-Rom software development and distribution, and in the production and distribution of films. The company's sales from information-related activitles, including the distribution of hardware, amounted to Y400bn in the year to March 1995.

The company acts as advertising and distribution agent in Japan for NBC's satellite and cable TV programmes. Mitsui is also the Jspanese partner of America Online, the US online services company, while Bertelsmann is AOL's European partner.

Mitsul and Bertelsmann sre discussing co-operation in areas including mail-order book clubs in Japan, TV shopping, and online services.

Bertelsmann, which runs Book Clnb, the world's largest membership mail-order book club, would provide know-how in this area, which is still underdeveloped in Japan, where Mitsui has an extensive distribution network.

Meanwhile, Mitsui could provide Bertelsmann with expertise in TV shopping. The Japanese company is involved in TV shopping in Japan and is preparing to start services in other parts of Asla.

INTERNATIONAL NEWS DIGEST

Weaker yen helps TDK surge 176%

TDK, the world's largest producer of magnetic tapes, yesterday reported record interim profits as a result of exchange rate gains created by the yen's decline.

The group's consolidated recurring profits – before tax and extraordinary items – rose nearly 176 per cent, to Y57.9bn ($519m), in the six months to September on turnover up 18.2 per cent to Y301.7bn. Overseas sales rose by 25.5 per cent to Y183.5bn.

TDK attributed its performance to strong demand for electronic components, lifted by the expansion in the world personal computer market, as well as increased demand for recording media, especially minidisks.

The increase in net profits was even greater, because of a Y25bn extraordinary gain on the $575m sale in June of TDK's US semiconductor subsidiary, Silicon Systems, to Texas Instruments. Net profits jumped 253 per cent, to Y34.38bn, causing earnings to rise from Y73.46 a share last year to Y258.37. *William Dawkins, Tokyo*

Goodman Fielder appointment

Goodman Fielder, Australasia's biggest food manufacturer, yesterday announced it had appointed Mr Barry Ford as finance director. Mr Ford was previously general manager, finance, at Southcorp Holdings, the packaging, wine and appliance manufacturing group. The finance director's job at Goodman fell vacant unexpectedly last month when Mr Les Cullen, who had joined the Australian company from the UK's De La Rue seven months' previously, resigned. *Nikki Tait, Sydney*

China share bids punished

China's securities market regulator, the CSRC, has punished and fined 12 banks and brokerages for illegally bidding for shares on credit.

In reporting the punishment at the weekend, the official China Securities newspaper urged "harsh punishment" for those responsible for bidding for shares on credit in initial public offerings, which, it said, made huge volumes of credit flow illegally into the stock market and deprived small and medium-size investors of the chance to buy new shares.

Fears of a crackdown by the regulators has slowed a rise in Shanghai's domestic investor A-share index in recent weeks. China's regulators have become increasingly concerned about curbing illegal speculation after a bond futures scandal last year left one of the country's premier brokerages virtually bankrupt. *Sophie Roell, Beijing*

Glencore in Anaconda deal

Glencore International, the Switzerland-based commodity trading firm, has reached a "farm-in" agreement with Anaconda Nickel, the Perth-based group, over its large Murrin Murrin nickel-cobalt project in Western Australia. This will see Glencore take a stake of between 30-49 per cent in the Murrin Murrin project, at a cost of US$5.5m for each percentage point. The full 49 per cent would cost the commodity trader approximately US$270m. The precise percentage to be taken by Glencore, which already owns 19.99 per cent of Anaconda, will be announced later this month. *Nikki Tait*

WMC to build A$157m plant

WMC, one of the largest Australian mining groups, has given the go-ahead for a new A$157m (US$124.6m) processing plant at its St Ives gold operation near Kambalda, Western Australia.

The plant is due to be completed in 1998, when production from St Ives should increase to approximately 550,000 ounces a year. WMC said this figure could ultimately rise to 700,000 ounces a year assuming further gold reserves are proven. Annual production is currently around 400,000 ounces.

In the light of the St Ives expansion, WMC said it was putting its Hill 50 gold operations at Mt Magnet up for auction. The sale is likely to take place in early 1997. *Nikki Tait*

BHP rethinks Vietnam deal

Broken Hill Proprietary, the Australian energy and resources group, said it was "considering all options" for its 43.75 per cent stake in the troubled Dai Hung oil field, off Vietnam.

The Melbourne-based group has been trying for more than a year to renegotiate the terms of a production-sharing contract with PetroVietnam, the state oil agency.

BHP said it was discussing possibilities with Hanoi and with its partners in the project, which include Total of France, Japan's Sumitomo and Petronas of Malaysia, as well as PetroVietnam. *Jeremy Grant, Hanoi*

Bezeq forced to wait impatiently

Israel's telecoms group wants full privatisation but the government is hesitant

If Mr Isaac Kaul, chairman of Bezeq, Israel's telecommunications network, had his way, he would speed up the privatisation of the company, develop an integrated telecommunications network in the Middle East, and diversify.

However, many of bis plans depend on the government led by Mr Benjamin Netanyahu, the prime minister and head of the conservative Likud-led coalition. The government still retains a 77 per cent stake in Bezeq and it has yet to spell out its plans for further privatisation of the company. But Mr Kaul does not want Bezeq kept waiting.

Since becoming chairman six years ago, he has transformed Bezeq from a sleepy hureaucratic giant starved of investment to a high-tech network which will invest more than Shk12bn ($3.72bn) over the next five years. In the 1980s, the average waiting time for a telephone line was three years. A connection can now be made within 48 hours in a country which will be completely digitalised by the end of the year.

In addition, infrastructure services and the cellular network have been thrown open to competition. As part of the government's policy of reducing its stake in some of its holdings, two tranches amounting to 23 per cent of Bezeq were floated on the Tel Aviv Stock Exchange in the early 1990s.

By lsst year, Cable and Wireless, the UK telecoms group, bad quietly snapped up 10 per cent of the stock and is interested in acquiring a further 10 per cent. It had an immediate effect on Bezeq's share price, which rose from under Shk4.50 to over Shk7.50 and has remained around this price ever since. The net return on equity for the first six months of this year was 12.5 per cent.

> **Mr Kaul would relish a secondary offering, but this has been held up for over a year. The government supports the move, but disagrees about when and how such an offering should take place**

Then, earlier this month, Bezeq pushed ahead with further competition. It awarded licences to provide international telecommunications services to two groups, which include Deutsche Telekom, the German network, and France Télécom.

This decision will not only break Bezeq's monopoly in this field, it will bring down international telephone calls by at least 25 per cent. "Our revenues will he affected," said Mr Kaul, adding that international calls already make up about 35 per cent of Bezeq's revenues, which last year totalled Shk7.1hn. Net profits totalled Shk565m.

But what Mr Kaul would relish is a secondary and global offering of 26 per cent which has been held up for well over a year. Although the government has said it supported this move, there are fundamental differences between it and Bezeq about how and when the offering should take place.

The government is insisting on a strategic partner. According to analysts, this means it could delay the offering, set for 1997, because it fears Cable and Wireless would step in again and snap up more shares.

Mr Kaul no longer believes Bezeq requires a strategic partner. But as Mr Gad Haker, chief economist at Batuchs Securlties, explained, the government is still hamstrung by socialist beliefs. "Whoever takes a stake, the government wants to ensure it will retain control of Bezeq. It is afraid of foreigners controlling the company," he added.

The other problem is the timing of the secondary offering. Analysts believe Bezeq should wait until the enthusiasm for Deutsche Telekom, offered earlier this week, has waned. Finally, what investors want to know is what effect ths opening up of the international market will have on Bezeq itself. Mr Haker says the government will have to subsidise Bezeq for the next three or four years to offset the loss in revenues. "There are now opportunities and uncertainties for Bezeq. No one knows how many new subscribers will sign up once prices for international calls fall," he sdded.

Mr Ksul agrees. "It is unclear what market share we would retain. Bnt we could expect growth in this sector to triple as rates become cheaper." Ha also believes that if the peace process – one of the driving forces behind Bezeq's activities in eastern Europe and the former Soviet Union – continues, Bezeq could grow a further 27 per cent next year.

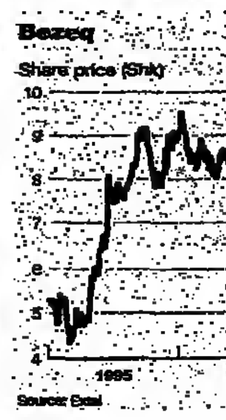
The government's delay in setting a date for the secondary offering has not made lifs easy for Bezeq or, for that matter, for foreign investors. Nor has the government's insistence on the royalty system, which explains some of Bezeq's high tariffs.

Under the 1982 telecommunications law which granted Bezeq exclusive services, it has had to pay an 11 per cent royalty – since reduced to 8 per cent – to the government. This royalty applies to foreign companies competing in Israel's cellular market and the international calls market as well.

"It means that 8 per cent of our total revenues are paid to the government. It is a kind of taxation which effects our rates," said Mr Kaul.

Some of these issues might be clarified later this month, when the ministry of communications will present its recommendations for further privattsation. "Ws are waiting for the government's strategy," said Mr Kaul, clearly not content to let Bezeq remain a permanent political football and clearly impatient for full privatisation.

Judy Dempsey



COMPANIES AND FINANCE: UK

Allied Colloids acquires US supplier for $390m

By Jenny Luesby

Allied Colloids, the specialty chemicals company, yesterday announced the $390m acquisition of one of its suppliers, CPS of the US, in defiance of the industry trend towards greater focus.

However, analysts welcomed the acquisition, saying it would give the group considerable growth potential, as well as improved margins.

Allied Colloids plans to finance the purchase through a rights issue to raise £173m, as well as borrowings.

CPS is a leading producer of ingredients for water-soluble polymers, used to coat paper and as thickeners.

It has been a supplier to Allied Colloids for the last seven years, with sales to the group representing 14 per cent of its total turnover of $157m last year.

Mr David Farrar, chief executive of Allied Colloids, said there was no duplication in the two companies' product ranges.

"The result of the acquisition would be much greater integration from commodity chemical to final product. It really is a very good fit."

CPS is also unusually profitable by chemical industry standards, with pre-tax profits last year reaching $35.5m.

Traditionally, the same has been true of Allied Colloids. However, the group yesterday unveiled first half results which analysts described as "disappointing".

Pre-tax profits rose 3.7 per cent to £21.07m on sales up 8.9 per cent at £207.8m. The result followed a very weak year in 1996, when the group was hit by rising raw material prices. Gearing after the deal will be 60.6 per cent.

This acquisition of CPS would help to reduce the group's vulnerability to similar price swings in future, said Mr Farrar, with 75 per cent of CPS' sales under contracts pegged to raw material prices.

The American company is privately owned. Mr Robert Bohny, executive vice-president, said it was selling because the owner and president, aged 59, wished to retire.

"The time is right, and we have known Allied Colloids and worked with them well for many years," he said.

The British company plans to raise about £173m of the purchase price through a rights issue.

It will offer two shares, priced at 118p each, for every seven owned.

The shares yesterday closed down 9p, at 186p.

Mr John Harnett, finance director, said the balance would be raised through existing and new bank facilities.

The deal would have a positive effect on earnings by next year, he said. In addition, it would bring a US tax benefit of about $8.1m a year for the next 15 years, as Allied Colloids depreciates the goodwill.

The group also expected the deal to generate rapid expansion, said Mr Harnett. CPS was operating in a market that was growing at between 10 and 15 per cent a year, with a sales force of 14 people. The UK company has a worldwide sales team of 400 people.

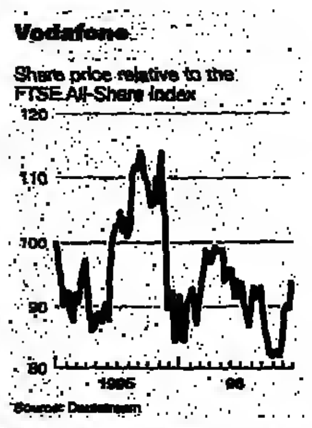
In addition, there would be technological gains through combining knowhow.

Brendan Corr

David Farrar: there is no duplication in product ranges

LEX COMMENT

Vodafone



Vodafone's shares have for long been held back by fears of intensifying competition in the UK. But yesterday's results suggest the gloom may have been overdone. Not only is Vodafone winning back share of a market whose growth appears to be picking up but the worst of the sharp declines in revenue per customer are over. Average revenue per customer in the half year to end-September did fall to £430 from £480 in the same period last year, but this was less than expected.

There are two main reasons. First, Vodafone's newish tariff structure, under which customers receive a package of free calls in exchange for paying higher monthly charges, is encouraging people to talk for longer. Second, roaming – whereby customers can use their mobile phones across Europe – has taken off more rapidly than expected. When visitors to the UK roam on Vodafone's network, the business is especially profitable, generating margins of about 60 per cent. The company gets the lion's share of this business because its affiliates in other European countries direct their customers to Vodafone rather than Cellnet. Orange and Mercury One2One, its other rivals, are not in a position to compete for this business because their networks do not yet support roaming.

On its own, the good news in the UK would not justify Vodafone's multiple of around 23 times current year earnings. But add in the fact that its international businesses have finally turned the corner and the stock looks good value.

Vodafone pays £77m for distributor

By Nicholas Denton

Vodafone, the independent mobile phone operator, yesterday asserted control over the retailing of its handsets when it announced the £77m ($127m) acquisition of Peoples Phone, its largest and most troubled distributor.

The acquisition came as Vodafone reported interim pre-tax profits of £252m in the six months to September – 21 per cent up on a year earlier and more than £10m ahead of analysts' best expectations. The shares rose 10p to close at 253p.

The price obtained for Peoples Phone compares with the £200m valuation put on it last year before flagging Christmas sales, the postponement of a planned flotation and the abrupt resignation of Mr Charles Wigoder, founder and chief executive.

But Vodafone will gain more than 400 retail outlets and help reduce dependence on independent distributors where quality of service can vary.

The deal confirms that established mobile phone operators – which initially sold handsets through companies such as Peoples Phone and Dixons – are now following Hutchinson Telecom's Orange network in taking direct control.

With Vodafone products representing 90 per cent of Peoples Phone's sales, the mobile operator was the natural buyer. An expression of interest from Orange spurred Vodafone on.

Although it confirmed the acquisition, Vodafone ruled out most other rumoured deals. Sir Gerald Whent, Vodafone's chief executive, opposed an AT&T bid for his company. "We would fight like hell," he said. A deal between Vodafone and AirTouch, the US mobile company, was also dismissed.

Much of Vodafone's improvement for the half-year was because of an £11m exceptional gain on asset disposals, but the results also reflected recovering demand for mobile phones after a year-long downturn.

Vodafone's international operations, which have suffered losses in their early years of development, are expected by analysts to move from 1995's loss of £20m to a profit of the same magnitude in 1996.

Deutsche Morgan Grenfell – valuing Vodafone's UK business at the prevailing market p/e ratio of 14 and its international businesses on a discounted cash flow basis – said the company was worth about 285p a share.

Granada sells Hyde Park to Mandarin

By Scheherazade Daneshkhu

The sale of Granada Group's 17 Exclusive Forte hotels began yesterday with the £86m ($142m) disposal of the Hyde Park Hotel in London to Mandarin Oriental Hotel Group.

The £485,000 a room sale price for the freehold property was 22 per cent above the book value of £70m but below the £90m revaluation by Christie's, the chartered surveyors last December.

Forte revalued its hotels as part of its fight against Granada's £3.9bn hostile bid but lost its independence in January. Since then Granada has been conducting an auction of the Exclusive hotels, which include the George V in Paris and the Plaza Athenee in New York.

The sale also marks the re-entry of Mandarin Oriental, the Hong Kong-based quoted company to London after losing the contract to manage the Ritz, sold last year by Trafalgar House to David and Frederick Barclay, the property investors.

Mr Russell Kett, managing director of HVS International, the hotel property consultants, said yesterday: "It's a high value but is a fair price for both parties since it reflects the potential of the hotel and its envisaged future earnings."

Analysts said the 22 per cent premium to book value implied a value of £900m for the Exclusive group of hotels.

The Hyde Park Hotel made operating profits of £4.7m on turnover of £15.3m in its last full year trading period to January 31.

Mr Robert Riley, managing director of Mandarin Oriental said the hotel had turned in improved results for this year and the price paid represented fair value. The cash purchase was funded out of existing resources and £45m of borrowings. Mandarin Oriental is not bidding for any other Exclusive hotels.

Mr Charles Allen, chief executive of Granada, said yesterday: "Today's sale demonstrates that we are very keen to drive premium prices and to get the best shareholder value."

He said Granada was in discussion with other groups for the sale of the remaining 16 hotels.

Lloyds Chemists dismisses bids

By Christopher Price

Lloyds Chemists yesterday advised shareholders not to respond to either of the rival offers – from Gehe and UniChem – for the high street drugs chain.

In a letter to shareholders, Lloyds noted that neither the £650m ($1.07bn) cash offer from Gehe of Germany, nor the £632m cash and share bid from UniChem, the UK drugs wholesaler, was final.

HSBC Samuel Montagu, which is advising Lloyds, added yesterday it considered neither bid put a "full value" on the company.

Discussions had taken place between Lloyds and the two suitors, but Lloyds and its advisers decided against recommending either offer. Analysts widely expect both Gehe and UniChem eventually to raise their offers.

UniChem launched its latest bid for Lloyds on October 18 after the government approved undertakings from the UK group and Gehe which had been recommended by the competition authorities.

Both UniChem and Gehe, which began their battle for Lloyds back in January, have substantial wholesaling operations and were ordered to find buyers for Lloyds' wholesaling interests in advance of re-bidding.

EMI ahead despite fall in record sales

By Alice Rawsthorn

Strong sales of *Older*, George Michael's comeback album, helped EMI Group to achieve a 9.4 per cent increase in interim profits before tax and exceptional items to £112.5m ($185.6m), despite an overall decline in sales from its record labels.

Although sales fell, profits from the record labels were buoyed by improved productivity and EMI benefited from higher sales from its HMV record stores.

Sir Colin Southgate, chairman, described EMI's first results as an independent company, following this summer's split from the Thorn rental group, as "pretty good," and he was "confident" about prospects for the full year.

The shares, which have fallen from a peak of £14.85 shortly after the demerger, rose by 23½p to £12.94½. Operating profits rose to £119.8m (£115.6m) on group sales of £1.47bn (£1.44bn).

Yesterday's announcement from EMI, which is raising its dividend for the six months to September to 8p (7.1p) on earnings per share of 15.1p (13.5p), strikes a stark contrast with Monday's gloomy news from Thorn. The rental group warned of tough conditions in North America, fresh litigation there, and operational problems in the UK.

The news of EMI's profits increase contrasts with last month's profits warning from its arch-rival, PolyGram, the Dutch group.

EMI's record labels, which include Virgin and Capitol, were affected by the sluggish music market in the first half. Record sales were static in most regions except Latin America, despite the success of George Michael's album, which sold 4m copies, and Tina Turner's *Wildest Dreams*, with sales of 2m.

Sir Colin said EMI's music publishing business had shown strong growth and its record labels had improved margins through reduced marketing costs and the benefits of long-term productivity initiatives.

EMI Music mustered a 6 per cent increase in operating profits to £131.9m (£124.6m) on turnover slightly down at £1.1bn.

Sir Colin said conditions remained difficult in North America, where the market has been destabilised by disruption in record retailing, and some European markets. However, Asia and Latin America were showing strong growth. He expects strong sales in the current quarter.

HMV lifted turnover 17 per cent to £359.8m., fuelled partly by new stores in Asia and North America.

See Lex

Gas side behind BOC rise

By Jenny Luesby

BOC, the industrial gases group, yesterday unveiled an 11 per cent rise in annual pre-tax profits, helping to drive the share price up 44½p to 880½p.

Mr Danny Rosencrantz, chief executive, said the profits rise – to £444.9m – reflected "a vigorous performance by our gases businesses", offset by the "very difficult" conditions for the healthcare business, concentrated in the US.

He announced plans to halt the slide in the healthcare business through the group's expansion into injectable anaesthetics.

BOC had managed to win sole supplier status with 80 per cent of US hospitals.

It could gain maximum advantage from this by expanding its product range.

It already had applications with the FDA for two new generic anaesthetics.

Azlan rights to fund Dutch buy

By Ross Tieman

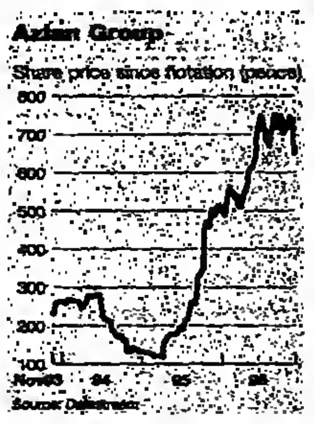
Azlan, the fast-growing computer products distributor, yesterday announced a deeply discounted £48.5m rights issue and the purchase of a computer training specialist in the Netherlands for £29.6m.

Shares in the group fell 90p to 650p, just 30p ahead of the 620p at which shares are being offered in the 3-for-10 issue, underwritten by SBC Warburg.

The company also published results for the half year to October 4, showing pre-tax profits ahead 36 per cent at £6.03m.

Mr Christian Martin, chief executive, said the purchase of the computer training group Akam International Holding and the issue of new shares would enable Azlan to speed its development in continental Europe.

Akam is a leading provider of network computer training in the Netherlands, with subsidiary activities in consultancy and hardware distribution. It employs 188 at four branches in the Netherlands and two in Belgium.



In 1995, Akam achieved an operating profit of Fl 3.3m (£1.2m) on sales of Fl 74.9m.

Azlan, which distributes sophisticated computer networking products in 11 European countries, has agreed to pay £22.6m in cash, with a further £7m payable if financial conditions are met.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Adpot & Harvey	6 mths to Sept 30	24.2	(27.3)	2.55	(2.54)	34.8	(30.8)	12.25✱	Jan 6	11✱	-	24.5✱
Allied Colloids	6 mths to Sept 30	207.8	(190.6)	21.1	(20.3)	2.84	(2.81)	0.64	Feb 14	0.58	-	2.86
Azlan	6 mths to Oct 4	128.5	(72.7)	6.03	(4.45)	15†	(13.8)	1.3	Jan 31	1.2	-	3.8
Bett Brothers	Yr to Aug 31	38.3	(33.5)	5.02	(5.57)	33.27	(28.83)	3.85	Jan 13	3.65	5.6	5.4
BOC	Yr to Sept 30	4,020	(3,752)	444.9	(402.2)	57.74	(51.97)	14.5#	Feb 3	13.5	29#	27
Cosalt	Yr to Sept 1	84.5	(73.2)	3.75	(2.8)	20.38	(15.96)	6.2	Jan 22	5.5	9.8	8.75
De La Rue	6 mths to Sept 30★	381.9	(347.4)	60.3	(69.1)	18.7	(23.1)	7.5	Jan 17	7.25	-	23.75
EMI	6 mths to Sept 30ǂ	1,468	(1,445)	146.2▼	(108.4▼)	21.4	(13.8)	8	Mar 7	7.1	-	27
Enterprise Inns	Yr to Sept 30ǂ	38.1	(24.8)	5.56▲	(7.69)	10.34†	(14.3)	4.5	Jan 24	-	6.75	-
Estates & Agency	Yr to June 30	5.87	(5.93)	1.05	(1.34)	15.32	(16.22)	9	Jan 3	10	15	14.5
European Colour	6 mths to Sept 30	10.25	(10.24)	1.48	(1.36)	2.41	(2.35)	0.825	Jan 3	0.775	-	2.2
Ferraris	Yr to Aug 31	19.7	(13.2)	1.44	(0.65)	9.71†	(6.4)	1.75	Jan 20	1.4	2.6	2.35
Ball Thomson Φ	6 mths to Sept 30	3	(2.74)	0.958	(0.402)	2.8ǂ	(2.3ǂ)	-	-	-	-	-
Great Portland	6 mths to Sept 30	47.6□	(46.7□)	21.9▼	(23.8▼)	5.1	(5.5)	2.9	Jan 3	2.9	-	9
Mansfield Brewery	6 mths to Sept 28	79.8	(74.2)	10.5	(9.48)	11.6	(10.34)	2.1	Dec 20	1.7	-	5.9
Merchant Retail	6 mths to Sept 28	25.4	(55.6)	0.21L	(3.33L▲)	0.28L	(4.61L)	nil	-	nil	-	nil
Norcros	6 mths to Sept 30	115.4	(159.7)	51.2▼	(18.7▼)	28.5	(9.8)	1	Jan 3	nil	-	nil
Policy Portfolio	6 mths to Sept 30	11.6	(9.81)	0.559	(0.387)	4.6	(3.2)	2	Jan 9	2	-	6.5
Relue	6 mths to Sept 30	30.3	(28.3)	2.3	(0.356L▲)	1.72	(0.32L)	0.5	Jan 29	-	-	-
Unigate	6 mths to Sept 30	1,186	(1,043)	60.8	(60.4)	19	(18.8)	7	Jan 3	6.65	-	19.2
Villiers	Yr to July 31	1.97	(3.41)	0.153▼	(3▼)	0.11	(2.34)	-	-	-	-	-
Vision	Yr to July 31	4.42	(1.73)	2.3L	(1.5L)	7.39L	(6.61L)	-	-	-	-	-
Vodafone	6 mths to Sept 30	771.5	(666.4)	252.4	(206.1)	5.67	(4.39)	2.36	Feb 12	1.97	-	4.01
Whitecroft	6 mths to Sept 30	74	(68.8)	2.71	(3.45)	4.4	(6)	1.75	Jan 27	1.75	-	5

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Baring Stratton	6 mths to Sept 30	315.8	(272.5)	0.123	(0.156)	0.97	(1.24)	-	-	-	-	2.29
Glasgow Income	Yr to Sept 30★	-	(-)	1.06	(0.958)	3.41	(3.09)	1	Feb 28	1	2.8	2.8
Henderson American		-	(-)	-	(-)	-	(-)	1.8§§	Feb 5	1.8	-	7.8
M&G Income	9 mths to Oct 31	76.62	(74.06)	12.5	(11.4)	5.05	(4.59)	1.1‡	Jan 20	1.05	-	5.25
Mercury European	6 mths to Sept 30	129.43	(107.26)	14.3	(12.4)	2.67‡	(2.16)	0.6	Jan 9	0.6	-	1.9

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ✱Foreign income dividend. ▲After exceptional charge. ▼After exceptional credit. †On increased capital. #Pay-outs are for year to September 30 1997 with second interim of 14.5p scheduled for payment on August 1. ★Comparatives restated. ǂPro forma. ΦAim stock. □Net rental income. ‡On reduced capital. §§Third interim; makes 5.4p to date. ‡Third interim; makes 3.25p to date.

INTERNATIONAL CAPITAL MARKETS

Talk of rate cut lifts Spanish bond futures

GOVERNMENT BONDS

By Richard Adams in London and Lisa Bransten in New York

Spanish and Italian government debt yields fell again yesterday, reflecting continued appetite for markets likely to benefit from European economic and monetary union.

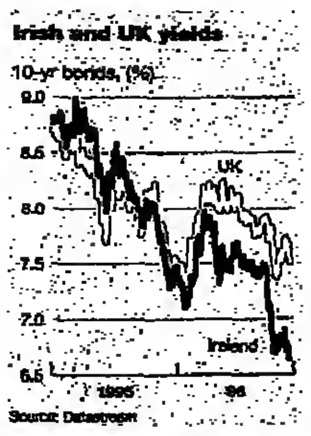
Meanwhile, in the US bond prices were up nearly half a percentage point at midday, as the market took note of more bearish economic news.

In Europe, the December futures contract on Spanish bonds hit a record 111.28, before falling back to settle at 111.05, up 0.67 from Monday's close.

This scenario was repeated in the cash market, with the 10-year benchmark bono rising to 110.80, from 110.09. The yield fell 10 basis points to 7.16 per cent. Its spread over German bunds narrowing to 138 basis points. A month ago, this spread was 160 basis points; and two months ago 220 points.

Analysts in London said bonos had been supported by the strong performance of Treasuries and the US dollar. Part of the demand was sparked by expectations that the Bank of Spain will cut interest rates in December.

Italian bonds also enjoyed a good day. Talk of Thursday's preliminary inflation figures being as low as 2.5 to 2.7 per cent was supported by a deal between the government and unions over the introduction of a "Euro-tax". The December BTP future settled at 128.11 on Liffe, up from 127.69, but went on to hit a record 128.44 in after-hours trading. The BTP cash market was more subdued, although the 10-year spread over bunds narrowed by 3 basis points to 175 points.



Source: Datastream

UK gilts traded in a narrow range, with long gilt futures trading between 110$\frac{1}{4}$ and 110$\frac{5}{8}$, before settling at 110$\frac{1}{8}$, up $\frac{1}{8}$.

But UK issues were once again outperformed by Irish gilts. In the cash market, the 10-year Irish benchmark bond rose 0.30 to 108.98, its yield falling by four basis points to 6.72 per cent.

While the spotlight has been on Italian and Spanish bonds, the rally in Irish gilts has been just as spectacular. The yield spread between 10-year Irish issues and German bunds has narrowed to just 90 basis points.

Mr Daniel McLaughlin, chief economist at Riada Stockbrokers in Dublin, said Irish gilts are still undervalued, given that Ireland fulfils all the criteria for joining Emu.

With two-year paper yielding 245 basis points over Germany, "the Irish short end is compelling," Mr McLaughlin said.

Signs of a slowdown in the US housing sector helped US Treasury prices post gains in early trading yesterday.

Near midday, the benchmark 30-year Treasury was $\frac{5}{8}$ stronger at 100$\frac{3}{8}$ to yield 6.43 per cent.

At the short end the two-year note gained $\frac{1}{16}$ to 100$\frac{3}{8}$, yielding 5.63 per cent. The December 30-year bond future lost $\frac{1}{32}$ at 114$\frac{3}{8}$.

The Commerce Department said housing starts fell by 5.1 per cent to 1.36m in October on the heels of a 6.1 per cent drop in September, marking the first back-to-back decline in over a year. Economists had expected the figure to hold steady at about 1.44m.

Several economists said the figures served to confirm market assumptions that the Federal Reserve is unlikely to change monetary policy in the near term.

"The bigger picture shows that housing peaked in the second quarter and is now on a declining trend, which should be a drag on growth over the balance of the year," said Mr Joseph Liro, economist at CIBC Wood Gundy in New York.

GUS borrows $800m to fund Experian buy

By Conner Middelmann

The syndicated loans market is showing few signs of year-end fatigue, with new deals continuing to emerge in rapid succession.

In the UK, BZW and Chase Investment Bank have won the mandate to underwrite a $800m five-year dual-currency facility for Great Universal Stores to finance its acquisition of Experian, a leading US supplier of credit and marketing information.

GUS – which owns Burberry's and Scotch House, the luxury clothing stores, and operates several mail-order catalogues – has been building up its own credit information company, which will fit well with Experian.

This is its first foray into the bank lending market in 10 years. The cash-rich company, which had balances of £1.2bn at the end of its last financial year in March, has had little need to tap the market in recent years. However, it has decided to borrow some of the funds for the purchase of Experian, possibly to spare some cash for other acquisitions.

The loan, launched into general syndication late yesterday, is believed to be paying a margin of 15 basis points over Libor.

Sun Life & Provincial Holdings, the UK insurance company, is making its debut in the syndicated loans market with a £300m facility, arranged by J.P. Morgan, to refinance debt raised last year through a private placement.

Before the launch, J.P. Morgan appointed four co-arrangers: Banque Nationale de Paris, BZW, the Royal Bank of Scotland and Union Bank of Switzerland.

The deal is now being syndicated to the broader market. The five-year facility will pay 15 basis points over Libor; there is a commitment fee of 7.5 basis points, and participation fees are 4 basis points for lead managers at £20m and 3 basis points for managers at £10m.

Also in the UK, a three-bank bilateral financing for Booker, set up to finance its acquisition of Nurdin & Peacock, is being converted into a syndicated loan. The £350m three-year transaction is being arranged by BZW, Bayerische Landesbank and HSBC, the three banks which extended the original financing.

The international market saw the launch of a SKr1bn multi-currency revolving credit facility for Venantius, the Swedish agency set up to manage government-granted housing loans made from the 1950s to 1991. Venantius is wholly government-owned and carries the guarantee of the National Debt Office. The facility is being syndicated among a small group of core relationship banks, with Den Danske Bank acting as arranger.

India's Birla AT&T Communications, a joint venture between US telecoms giant AT&T and the Indian Birla conglomerate, has mandated Bank of America and Toronto-Dominion Bank to arrange a loan to part-finance the construction and operation of its cellular telephone networks in the Maharashtra and Gujarat regions.

The loan, the first Indian cellular phone transaction in the market, is likely to total some $200m and to be syndicated in due course, the arrangers said.

Turkey launches deal despite JCR downgrade

INTERNATIONAL BONDS

By Samer Iskandar

The start of the Christmas shopping season has not yet signalled the year-end lull on the bond markets, judging by yesterday's activity.

The decision by JCR, the Japanese credit rating agency, to downgrade Turkey's eurobonds from BB+ to BB did not affect the launch of a DM750m deal by the republic, according to the lead managers Commerzbank and Deutsche Morgan Grenfell.

Turkey's foreign-currency denominated debt is rated B+ by Standard & Poor's, with a "negative outlook".

"Investors have factored in a downgrade," said a syndicate official at Deutsche. He added that the launch was very successful, pointing to a tightening in the issue's yield spread over bunds to 274 basis points from 280 points at launch.

Demand was bolstered by the bonds' zero risk weighting, which allows German banks to hold them on their balance sheets.

National Westminster Bank tapped the sterling market, with £300m of 15-year bonds. After 10 years, the issuer is faced with a choice between redeeming the paper at par, or resetting the coupon at 160 basis points over gilts for the remaining five years. The lead manager, NatWest Markets, described the structure as an "institutional play".

From the borrower's point of view, the 10-year part of the yield curve offered an attractive opportunity to swap the proceeds into a low-cost floating-rate liability.

Elsewhere, the dollar sector saw the issuance of two large deals, including a $250m issue from Toyota Motor Credit Corp.

In spite of the fact that the deal offered no yield premium over US Treasuries, ABN Amro, one of the two lead managers, said the paper was "not expensive compared with outstanding bonds". It also said retail investors in Switzerland and the Benelux region were "willing to accept yields well below the curve".

Elsewhere, Norddeutsche Landesbank made its debut issue in French francs. Caisse des Dépôts et Consignations, joint lead manager with Crédit Agricole, said the choice of a seven-year maturity allowed it to target two types of institutional investors – typical buyers of intermediate maturities such as mutual funds, and life insurance companies which usually prefer long-dated bonds.

Activity in the French franc sector, which has suffered from over-supply in the 10-year to 12-year area of the yield curve, is expected to remain subdued in coming weeks.

However, primary market officials do not rule out a few "surprise deals" by lead managers hoping to rise by a notch or two in the year-end league tables. Only one large transaction is widely-expected – by Fannie Mae, the US federal agency.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Student Loan Mktg Assoc(a)	500	8.16#	100.00R	Dec 1999	0.15R	+39(5¾%Nov99)	Merrill/Morgan Stanley
Toyota Motor Credit Corp	250	5.75	99.899R	Dec 1999	0.1875R	flat(5¾%-99)	ABN Amro/Salomon Bros
Norddeutsche Landesbank	200	6.00	99.90R	Dec 2000	0.225R	+9(i)	Daiwa Europe
KfW International Finance(e)	150	6.25	99.75R	Dec 2001	0.25R	+29(WI 5yr)	Morgan Stanley & Co Intl
Edenor	120	9.75#	99.62R	Dec 2001	0.60R	+390(WI 5yr)	Citibank/JP Morgan
Industrial Bank of Korea‡	110	(c)	99.875	Dec 1999	0.15	-	Barclays de Zoete Wedd
New Zealand★	100	4.875	100.00	Dec 1997	0.50	-	Nomura International
D-MARKS							
Republic of Turkey	750	7.625	99.85R	Dec 2001	1.00R	+280(6¼%-01)	Commerzbank/Deutsche
DSL Finance(s)	250	5.00	100.13R	Feb 2002	0.25R	+3(6%Jan02)	CSFB/SBC Warburg
YEN							
Merrill Lynch & Co★	12bn	1.94	100.30	Nov 2001	0.30	-	*Merrill Lynch International*
Reichhold Finance★	10bn	1.80	101.525	Dec 2000	1.625	-	Morgan Stanley & Co Intl
STERLING							
NatWest Bank(d,f)	300	8.125	99.267R	Dec 2011	0.40R	+60(7¼%-06)	NatWest Markets
Bayerische Landesbank(f)	200	7.375	99.81R	Dec 2001	0.25R	+10(7%-01)	CS First Boston
FRENCH FRANCS							
Norddeutsche Landesbank	1.5bn	5.375	99.499R	Dec 2003	0.30R	+16(i)	CDC/Crédit Agricole
ITALIAN LIRE							
World Bank(e)	1000bn	zero	23.903R	Nov 2016	0.25R	-	Credito Italiano
Dresdner Finance	200bn	7.375	101.48	Dec 2006	2.00	-	BCI/BNL
Rabobank Nederland(f)	100bn	7.375	101.58	Dec 2006	2.00	-	Credito Italiano
LUXEMBOURG FRANCS							
International Finance Corp(l)	2bn	5.625	102.60	Mar 2005	1.875	-	BCEE/BIL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ★Unlisted. ‡ Floating-rate note. #Semi-annual coupon. R: fixed re-offer price; fees shown at re-offer level. a) Callable from 2/12/97 at par. b) Callable on 17/12/98 at par. c) 3-mth Libor +10bp. d) Callable on 29/12/06 at par. If not called coupon is reset at 160bp over 5-yr gilts. e) Fungible with L2,000bn. f) L200bn launched on Monday was increased to L300bn. i) Over interpolated yield. l) Long 1st coupon. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	87.4270	+0.420	7.11	7.18	7.62
Austria		5.875	07/06	93.7300	+0.130	5.81	5.96	5.92
Belgium		7.000	05/06	107.2500	+0.080	5.98	6.04	6.06
Canada *		7.000	12/06	106.3800	+0.030	6.14	6.18	6.78
Denmark		8.000	03/06	108.4600	+0.160	6.75	6.82	6.74
France	BTAN	5.500	10/01	103.1017	+0.040	4.80	4.87	4.88
	OAT	6.500	10/06	105.2300	+0.190	5.80	5.87	5.91
Germany Bund		6.250	04/06	103.2100	+0.180	5.80	5.86	5.97
Ireland		8.000	08/06	108.9800	+0.300	6.72	6.86	6.81
Italy		8.500	02/06	113.0500	+0.390	7.52†	7.76	8.12
Japan	No 140	6.600	06/01	122.0906	-0.350	1.58	1.63	1.61
	No 182	3.000	09/05	103.1290	-0.080	2.57	2.71	2.74
Netherlands		8.500	06/06	119.6400	+0.040	5.78	5.95	5.90
Portugal		8.500	02/06	116.2000	+0.310	7.07	7.31	7.46
Spain		8.800	04/06	110.8000	+0.710	7.16	7.44	7.57
Sweden		6.000	02/05	83.7371	+0.240	7.01	7.31	7.05
UK Gilts		8.000	12/00	103-02	+2/32	7.11	7.18	6.66
		7.500	12/06	100-01	+3/32	7.48	7.60	7.36
		9.000	10/08	110-31	+4/32	7.59	7.71	7.50
US Treasury *		6.500	10/06	102-15	+8/32	5.17	6.22	6.49
		6.500	11/26	100-28	+16/32	6.43	6.47	6.79
ECU (French Govt)		7.000	04/06	105.6200	+0.040	6.19	6.29	6.28

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.65
Prime rate	8¼	Two month	-	Three year	5.77
Broker loan rate	7	Three month	5.17	Five year	5.93
Fed.funds	5$\frac{5}{16}$	Six month	5.25	10-year	6.17
Fed.funds at intervention	-	One year	5.36	30-year	6.44

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	127.90	128.04	+0.16	128.06	127.84	86,599	171,018
Mar	127.80	127.94	+0.16	127.96	127.78	5,107	50,698
Jun	126.68	126.74	+0.20	126.76	126.68	305	7,077

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Nov	Calls Dec	Calls Mar	Puts Nov	Puts Dec	Puts Mar
124	4.04	-	-	-	0.03	-
125	-	-	3.25	-	0.06	0.32
126	2.04	-	-	0.01	0.13	-
127	1.07	1.14	1.71	0.05	0.32	0.61
128	0.30	0.51	1.17	0.27	0.70	1.24

Est. vol. total, Calls 13,301 Puts 12,826. Previous day's open int., Calls 163,313 Puts 176,575

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	101.07	101.19	+0.11	101.26	101.06	131168	255276
Mar	100.10	100.20	+0.11	100.29	100.10	5602	28009

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Dec	Calls Jan	Calls Feb	Calls Mar	Puts Dec	Puts Jan	Puts Feb	Puts Mar
10100	0.28	0.25	0.48	0.64	0.09	1.05	1.29	1.44
10150	0.08	0.14	0.33	0.47	0.37	1.44	1.83	1.77
10200	0.01	0.07	0.22	0.34	0.82	1.67	2.02	2.14

Est. vol. total, Calls 14888 Puts 9164. Previous day's open int., Calls 229007 Puts 231403

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	127.78	128.11	+0.42	128.44	127.77	49671	105825
Mar	127.30	127.27	+0.43	127.35	127.15	1182	7242

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Dec	Calls Mar	Puts Dec	Puts Mar
12800	0.43	1.78	0.32	2.51
12850	0.21	1.59	0.60	2.82
12900	0.10	1.40	0.99	3.13

Est. vol. total, Calls 5752 Puts 5333. Previous day's open int., Calls 208482 Puts 201543

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	110.78	111.05	+0.48	111.28	110.63	99,131	67,025
Mar	110.26	110.56	+0.54	110.75	110.18	2,295	3,623

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	110-15	110-18	+0-04	110-28	110-15	64132	143870
Mar	109-28	109-29	+0-05	110-04	109-26	7415	7577

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Dec	Calls Jan	Calls Feb	Calls Mar	Puts Dec	Puts Jan	Puts Feb	Puts Mar
110	0-45	0-60	1-23	1-40	0-09	1-02	1-29	1-46
111	0-11	0-34	0-60	1-11	0-39	1-40	2-02	2-17
112	0-02	0-18	0-38	0-52	1-30	2-24	2-45	2-58

Est. vol. total, Calls 9144 Puts 4071. Previous day's open int., Calls 64483 Puts 40974

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	95.24	95.30	+0.08	95.30	95.22	2,759	7,928
Mar	-	94.86	-	-	-	-	-

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	114-26	115-03	+0-08	115-07	114-20	206,508	390,916
Mar	114-12	114-21	+0-07	114-25	114-09	7,948	81,935
Jun	113-29	114-06	+0-07	114-06	113-27	215	10,241

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	125.64	-	-	125.67	125.25	4102	n/a
Mar	124.74	-	-	124.74	124.37	1436	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Tue Nov 18	Day's change %	Mon Nov 18	Accrued interest	xd adj. ytd		Low coupon yield Nov 19	Nov 18	Yr. ago	Medium coupon yield Nov 18	Nov 18	Yr. ago	High coupon yield Nov 18	Nov 18	Yr. ago
1 Up to 5 years (21)	120.80	0.05	120.74	2.12	6.90	5 yrs	7.18	7.18	7.25	7.23	7.25	7.25	7.28	7.29	7.33
2 5-15 years (18)	150.24	0.12	150.05	3.08	8.84	15 yrs	7.68	7.70	7.89	7.66	7.68	7.94	7.68	7.71	8.01
3 Over 15 years (9)	169.95	0.16	169.68	4.47	8.63	20 yrs	7.76	7.79	7.95	7.72	7.74	7.98	7.74	7.78	8.04
4 Irredeemables (6)	192.27	0.65	191.02	0.78	13.47	Irred.‡	7.81	7.86	8.04						
5 All stocks (53)	144.53	0.11	144.38	2.98	8.64										

Index-linked							Inflation 5% Nov 18	Nov 18	Yr. ago	Inflation 10% Nov 19	Nov 18	Yr. ago
6 Up to 5 years (2)	202.85	0.02	202.80	0.79	5.28	Up to 5 yrs	3.13	3.13	2.79	2.43	2.42	1.59
7 Over 5 years (10)	195.84	0.30	195.25	1.18	4.71	Over 5 yrs	3.48	3.51	3.58	3.28	3.30	3.37
8 All stocks (12)	195.52	0.27	194.99	1.13	4.89							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Nov 18	Nov 18	Nov 15	Nov 14	Nov 13	Yr ago	High*	Low*
Govt. Secs. (UK)	94.66	94.48	94.10	93.81	93.36	94.73	96.34	91.59
Fixed interest	116.53	115.85	115.72	115.37	115.35	113.31	116.45	110.74

Gilt Edged Activity Indices

	Nov 18	Nov 15	Nov 14	Nov 13	Nov 12
Gilt Edged bargains	118.8	129.6	109.1	95.1	111.7
5-day average	113.1	107.8	102.5	104.8	112.5

 * for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:00 pm on November 19

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 00	1000	101	101¼	-⅛	6.30
ABN Amro Bank 7¼ 05	1500	103⅜	103⅞	+¼	6.80
African Dev Bk 7⅜ 23	500	102⅞	103½	+⅜	7.13
Alberta Province 7⅜ 98	1500	103¼	103⅝		5.82
Asian Dev Bank 6¼ 00	750	99¼	99⅜	+⅛	6.46
[illegible]					
Spain 7¼ 00	4000	109⅛	109¼		5.49
Volkswagen Intl Fin 7 00	1500	106½	106⅞	-⅛	5.77
World Bank 5⅞ 00	3000	102⅝	102⅞		5.41
World Bank 6⅛ 02	2000	104⅞	104⅞		5.14
World Bank 7⅛ 05	3000	108⅜	108⅝	+⅛	5.83
SWISS FRANC STRAIGHTS					
[illegible]					
Abbey Natl Treasury 8 00 £	1500	101⅜	101⅝	+⅛	7.70
British Land 8⅞ 23 £	150	96¼	96½	+¼	9.47
Denmark 6¼ 98 £	800	99⅜	99½		7.11
Depfa Finance 7⅛ 00 £	500	97	97¼	+⅛	7.70
EIB 8 03 £	1500	102½	102¾		7.49
Glaxo Wellcome 8¾ 00 £	500	104⅝	104⅞	+⅛	8.01
[illegible]					

UK GILTS PRICES

	Notes	Yield Int	Yield Red	Price £	+ or -	52 week High	52 week Low
Shorts" (Lives up to Five Years)							
Treas 13¼pc 1997‡‡		13.09	6.98	101$\frac{7}{32}$		107$\frac{11}{32}$	100½
Exch 10½pc 1997		10.40	6.18	101		107$\frac{5}{16}$	100$\frac{1}{16}$
Treas Cnv 7pc 1997‡‡		6.98	6.48	100$\frac{11}{32}$		101$\frac{15}{16}$	100$\frac{11}{32}$
[illegible]							
Treas 7¾pc 2006‡‡		7.63	7.52	101$\frac{19}{32}$	+⅛	103¾	95$\frac{5}{16}$
Treas 8pc 2002-6‡‡		7.79	7.42	102$\frac{23}{32}$	+⅛	104$\frac{15}{32}$	97⅝
Treas 11¾pc 2003-7		9.69	7.39	121$\frac{3}{16}$	+$\frac{1}{16}$	135$\frac{3}{32}$	118$\frac{23}{32}$
[illegible]							
Index-Linked	(b)						
4⅜pc '98‡‡	(135.6)	0.38	2.25	113$\frac{11}{32}$		114⅛	111⅜
2½pc '01	(78.3)	2.58	3.19	165	+$\frac{3}{16}$	165$\frac{13}{32}$	176¼
2½pc '03	(78.8)	2.83	3.28	161$\frac{7}{16}$	+$\frac{3}{16}$	161⅞	171$\frac{13}{16}$
[illegible]							

Other Fixed Interest

[illegible]

CURRENCIES AND MONEY

Pound's rally continues on foreign exchanges

MARKETS REPORT

By Graham Bowley

The pound held firm on the foreign exchanges yesterday, buoyed by continued speculation about higher UK short-term interest rates.

The Japanese yen fell slightly amid rumours that the Bank of Japan's tankan survey due next week may point to weaker than expected business conditions.

However, the US dollar failed to exploit fully the yen's weakness. It remained subdued – in spite of gains in US government bonds after weaker than expected housing starts data – as traders digested Monday's dollar gyrations prompted by conflicting remarks by a Bundesbank official.

The Italian lira and the Spanish peseta remained firm as investors continued to be attracted by the relatively high interest rates available on Italian and Spanish assets.

There were further market rumours that the Bank of France was unhappy with attempts by the Bank of Italy to prevent the lira strengthening too much ahead of its expected re-entry into the European exchange rate mechanism.

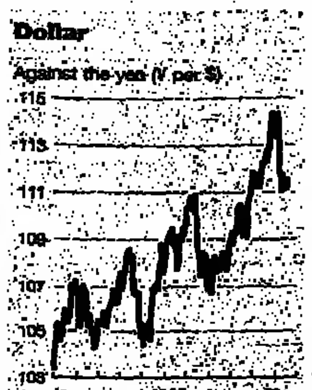
The Swiss franc strengthened amid complaints from Swiss industrialists that the currency is still too strong and is harming their export business.

Eurodollar futures contracts rallied. They are now on the brink of pricing in a cut in US interest rates, a sharp turnaround from early autumn this year when they were pricing in an interest rate rise.

The dollar closed at Y111.4 against the yen, almost unchanged from the previous close. It finished at DM1.503 against the D-Mark, from DM1.501. The pound closed at $1.6753 against the dollar, from $1.672. It finished at DM2.5177 against the D-Mark, from DM2.510.

■ The yen's early weakness yesterday caught most market analysts by surprise. Mr Tony Norfield, treasury economist at ABN Amro, said the currency's "unusual" weakness reflected market concern "about the lack of official policy" towards the yen and dollar.

The market was thrown into confusion on Monday after Mr Ernst Welteke, a Bundesbank council member, was first quoted as saying he could see no reason for the US currency to rise against the D-Mark before later saying that the Bundesbank would welcome a stronger dollar. The dollar first weakened and then strengthened as a result of his comments.



Source: Datastream

The dollar moved in a relatively narrow range against the D-Mark yesterday.

But Mr Steve Hannah, at IBJ International in London, said the dollar looked set to struggle for some time yet. He said: "There is a strong desire among the G7 countries for dollar stability but nonetheless the upward momentum is lost".

■ There were plenty of market rumours again yesterday that the Bank of Italy was continuing to manipulate the lira's exchange rate in the run up to its ERM re-entry, expected before the end of the year. Analysts said this was causing bad blood between the Italian central bank and the German and French authorities.

Analysts said Germany and France would like to see an ERM rate for the lira of about L950 against the D-Mark but they said the Bank of Italy continues to intervene to buy lira to stop it dropping below L1,000.

Mr Julian Callow, international economist at Kleinwort Benson in London, said the Italian discount rate was likely to fall to 6 per cent by early next year, from 7.5 per cent at present. He said the inflation rate would fall to 2.2 per cent. "Lower interest rates are needed to help the Italian economy, which is ailing," he said.

■ The pound's rally continued yesterday. Its strength since the beginning of the year has been put down to the increasingly robust pick-up in the UK economy and the prospect of higher interest rates. Retail sales data due today are expected to show high street activity continues to improve.

Mr Norfield said next week's UK budget could have a big impact on sterling's strength. He said a tight budget would dampen speculation about higher interest rates, therefore removing some support for the pound.

■ Pound in New York

Nov 19	Latest	Prev. close
£ spot	1.6750	1.6710
1 mth	1.6740	1.6703
3 mth	1.6715	1.6676
1 yr	1.6557	1.6520

■ OTHER CURRENCIES

Nov 19	£	$
Czech Kr	44.6920 - 44.7522	26.6850 - 26.7050
Hungary	260.147 - 260.386	155.330 - 155.380
Iran	5027.40 - 5034.40	3000.00 - 3000.00
Kuwait	0.4991 - 0.5011	0.2980 - 0.2990
Poland	4.7012 - 4.7090	2.8070 - 2.8100
Russia	9198.00 - 9206.85	5492.00 - 5494.00
U.A.E.	6.1514 - 6.1554	3.6729 - 3.6731

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POUND SPOT FORWARD AGAINST THE POUND

Nov 19		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.7177	+0.0526	085 - 269	17.7287	17.6350	17.6742	2.9	17.6177	2.3	-	-	104.8
Belgium	(BFr)	51.8882	+0.1538	434 - 330	51.9340	51.6380	51.7632	2.9	51.4982	3.0	50.3032	3.1	108.9
Denmark	(DKr)	9.8809	+0.0261	853 - 744	9.8745	9.8208	9.85	2.5	9.8094	2.5	9.4305	2.5	107.2
Finland	(FM)	7.5892	+0.0273	827 - 956	7.6100	7.5680	-	-	-	-	-	-	84.4
France	(FFr)	8.5151	+0.0306	113 - 189	8.5208	8.4714	8.4961	2.7	8.4573	2.7	8.2788	2.3	108.7
Germany	(DM)	2.5177	+0.0078	164 - 159	2.5290	2.5051	2.5116	2.9	2.4988	3.0	2.4424	3.0	108.0
Greece	(Dr)	396.026	+1.538	815 - 237	398.837	394.861	-	-	-	-	-	-	67.2
Ireland	(I£)	0.9864	-0.0003	975 - 993	0.9998	0.9958	0.9981	0.4	0.9971	0.5	0.9905	0.8	101.8
Italy	(L)	2535.88	+8.72	447 - 728	2544.02	2523.37	2539.68	-1.8	2547.19	-1.8	2551.68	-0.6	76.8
Luxembourg	(LFr)	51.8882	+0.1538	434 - 330	51.9360	51.6380	51.7632	2.9	51.4982	3.0	50.3032	3.1	105.8
Netherlands	(Fl)	2.8241	+0.0094	227 - 254	2.8257	2.8098	2.8169	3.1	2.8019	3.1	2.7372	3.1	106.0
Norway	(NKr)	10.6129	+0.0279	080 - 177	10.6404	10.5682	10.6004	1.4	10.5804	1.2	10.4754	1.8	99.5
Portugal	(Es)	254.461	+0.869	302 - 621	255.003	253.597	254.656	-0.9	255.026	-0.9	-	-	95.7
Spain	(Pta)	211.867	+0.564	762 - 972	212.014	210.871	212.032	-0.9	212.262	-0.7	212.262	-0.2	80.1
Sweden	(SKr)	11.0872	+0.0486	755 - 988	11.1103	11.0203	11.088	0.1	11.0833	0.1	11.0709	0.1	88.7
Switzerland	(SFr)	2.1244	+0.0034	230 - 258	2.1300	2.1151	2.1168	4.3	2.1019	4.9	2.0351	4.2	107.7
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	92.3
Ecu	-	1.3106	+0.0032	099 - 113	1.3115	1.3054	1.3087	1.6	1.3042	1.8	1.2828	2.1	-
SDR†	-	1.144410	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6751	+0.0039	745 - 756	1.6766	1.6695	-	-	-	-	-	-	-
Brazil	(R$)	1.7252	+0.0036	245 - 259	1.7267	1.7189	-	-	-	-	-	-	-
Canada	(C$)	2.2480	+0.0066	469 - 491	2.2519	2.2426	2.2429	2.7	2.232	2.8	2.173	3.3	85.7
Mexico	(New Peso)	13.2349	+0.0175	242 - 455	13.2456	13.1874	-	-	-	-	-	-	-
USA	($)	1.6753	+0.0038	748 - 758	1.6789	1.6695	1.6743	0.7	1.6719	0.8	1.6562	1.1	96.1
Pacific/Middle East/Africa													
Australia	(A$)	2.1101	-0.0017	088 - 114	2.1117	2.1015	2.1114	-0.7	2.1121	-0.4	2.1117	-0.1	93.2
Hong Kong	(HK$)	12.9538	+0.0295	491 - 585	12.9851	12.9092	12.9465	0.7	12.9326	0.7	12.868	0.7	-
India	(Rs)	59.7246	-0.0816	717 - 774	60.0821	59.3850	-	-	-	-	-	-	-
Israel	(Shk)	5.4141	+0.0294	096 - 195	5.4190	5.3841	-	-	-	-	-	-	-
Japan	(Y)	186.561	+0.322	439 - 684	187.140	185.880	185.671	5.7	183.811	5.9	175.781	5.8	129.8
Malaysia	(M$)	4.2254	+0.0059	235 - 272	4.2305	4.2135	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3519	-0.0059	499 - 537	2.3568	2.3449	2.3585	-3.4	2.3679	-2.7	2.3887	-1.6	111.5
Philippines	(Peso)	43.9767	+0.0747	965 - 568	44.0612	43.8815	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.2833	+0.0143	812 - 853	6.2890	6.2623	-	-	-	-	-	-	-
Singapore	(S$)	2.3454	+0.0062	441 - 466	2.3470	2.3372	-	-	-	-	-	-	-
South Africa	(R)	7.7659	-0.0208	593 - 724	7.7881	7.7579	-	-	-	-	-	-	-
South Korea	(Won)	1382.96	-0.29	171 - 421	1388.64	1381.61	-	-	-	-	-	-	-
Taiwan	(T$)	46.0708	+0.1045	235 - 180	46.1194	45.9113	-	-	-	-	-	-	-
Thailand	(Bt)	42.5819	+0.0798	650 - 988	42.6220	42.4450	-	-	-	-	-	-	-

† Rates for Nov 18. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 19		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan Index
Europe													
Austria	(Sch)	10.5759	+0.0075	735 - 782	10.5900	10.5605	10.5812	1.7	10.5159	2.3	10.3209	2.4	104.8
Belgium	(BFr)	30.9725	+0.0215	550 - 900	31.0100	30.9190	30.9125	2.3	30.785	2.4	30.245	2.3	106.9
Denmark	(DKr)	5.7720	+0.0025	710 - 730	5.7750	5.7620	5.7631	1.9	5.7447	1.9	5.663	1.9	106.7
Finland	(FM)	4.5300	+0.006	275 - 325	4.5444	4.5260	4.5212	2.3	4.5025	2.4	4.42	2.4	84.0
France	(FFr)	5.0828	+0.0068	820 - 835	5.0889	5.0720	5.0744	2.0	5.0564	2.1	4.9808	2.0	108.5
Germany	(DM)	1.5028	+0.0011	025 - 031	1.5052	1.4999	1.4999	2.6	1.4939	2.4	1.4691	2.2	107.6
Greece	(Dr)	237.585	+0.38	530 - 640	237.870	236.090	239.14	-7.9	241.71	-6.9	252.735	-6.4	67.0
Ireland	(I£)	1.6780	+0.0042	770 - 790	1.6805	1.6735	1.6775	0.3	1.6772	0.2	1.6743	0.2	-
Italy	(L)	1513.89	+1.78	330 - 407	1519.00	1510.30	1516.88	-2.5	1523.29	-2.5	1536.34	-1.5	76.4
Luxembourg	(LFr)	30.9725	+0.0215	550 - 900	31.0100	30.9190	30.9125	2.3	30.785	2.4	30.245	2.3	106.6
Netherlands	(Fl)	1.6857	+0.0019	854 - 860	1.6872	1.6825	1.6819	2.7	1.6739	2.8	1.6383	2.8	105.7
Norway	(NKr)	6.3349	+0.0023	339 - 359	6.3540	6.3240	6.3312	0.7	6.3255	0.9	6.2999	0.8	98.9
Portugal	(Es)	151.890	+0.055	840 - 940	152.150	151.810	152.095	-1.6	152.39	-1.3	153.165	-0.8	96.0
Spain	(Pta)	126.465	+0.05	440 - 490	126.610	126.300	126.645	-1.7	126.905	-1.4	127.57	-0.9	79.9
Sweden	(SKr)	6.6180	+0.014	130 - 230	6.6308	6.5980	6.6152	0.5	6.6054	0.8	6.558	0.9	86.6
Switzerland	(SFr)	1.2681	-0.0008	676 - 685	1.2711	1.2663	1.2643	3.6	1.2565	3.7	1.2236	3.5	107.6
UK	(£)	1.6753	+0.0038	748 - 758	1.6789	1.6695	1.6743	0.7	1.6719	0.9	1.6562	1.1	91.6
Ecu	-	1.2783	-0.0002	780 - 786	1.2794	1.2765	1.2796	-1.3	1.2828	-1.4	1.2994	-1.8	-
SDR†	-	0.698714	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	+0.0001	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0298	-0.0002	297 - 299	1.0301	1.0296	-	-	-	-	-	-	-
Canada	(C$)	1.3419	+0.0009	416 - 421	1.3443	1.3415	1.3396	2.1	1.3345	2.2	1.307	2.6	85.0
Mexico	(New Peso)	7.9000	-0.0075	960 - 040	7.9100	7.8900	8.019	-17.9	8.2845	-19.5	9.145	-15.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.0
Pacific/Middle East/Africa													
Australia	(A$)	1.2595	-0.0039	591 - 599	1.2600	1.2590	1.261	-1.4	1.2620	-1.1	1.2684	-0.7	94.6
Hong Kong	(HK$)	7.7322	-	317 - 327	7.7328	7.7315	7.7321	0.0	7.7326	0.0	7.7437	-0.1	-
India	(Rs)	35.6500	-0.1	500 - 500	35.8670	35.4370	35.865	-7.2	36.325	-7.6	-	-	-
Israel	(Shk)	3.2317	+0.0102	300 - 334	3.2345	3.2230	-	-	-	-	-	-	-
Japan	(Y)	111.360	-0.06	320 - 400	111.800	111.280	110.885	5.1	109.88	5.3	105.68	5.1	130.5
Malaysia	(M$)	2.5222	-0.0022	219 - 225	2.5245	2.5217	2.5251	-1.4	2.5305	-1.6	2.5517	-1.2	-
New Zealand	(NZ$)	1.4038	-0.0067	031 - 045	1.4046	1.4030	1.4093	-4.7	1.4136	-2.8	1.4451	-2.9	111.1
Philippines	(Peso)	26.2500	-0.015	100 - 900	26.2900	26.2100	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	504 - 506	3.7507	3.7502	3.7508	-0.1	3.7512	-0.1	3.7531	-0.1	-
Singapore	(S$)	1.4000	+0.0005	995 - 003	1.4005	1.3995	1.3978	1.8	1.3932	1.9	1.372	2.0	-
South Africa	(R)	4.6355	-0.023	330 - 380	4.6555	4.6325	4.6762	-10.5	4.7512	-10.0	5.066	-9.3	-
South Korea	(Won)	825.500	-2.05	000 - 000	828.600	824.900	-	-	-	-	-	-	-
Taiwan	(T$)	27.5000	-	800 - 200	27.5320	27.4790	27.5001	0.0	27.5003	0.0	-	-	-
Thailand	(Bt)	25.4175	-0.01	150 - 200	25.4300	25.4140	25.5075	-4.2	25.676	-4.1	26.3125	-3.5	-

† SDR rate per $ for Nov 18. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 18: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

[illegible]

EURO CURRENCY INTEREST RATES

[illegible]

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

[illegible]

■ THREE MONTH EUROMARK FUTURES (LIFFE) DM1m points of 100%

[illegible]

■ THREE MONTH EUROLIRA FUTURES (LIFFE) L1000m points of 100%

[illegible]

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

[illegible]

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

[illegible]

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

[illegible]

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 19		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.64	16.41	4.853	1.923	4887	5.442	20.45	490.5	408.4	21.37	4.093	1.927	4.332	3.228	359.8	2.526
Denmark	(DKr)	53.66	10	8.806	2.604	1.032	2623	2.920	10.97	263.2	219.1	11.47	2.196	1.034	2.325	1.732	193.0	1.356
France	(FFr)	60.94	11.36	10	2.957	1.172	2978	3.317	12.48	298.9	248.9	13.02	2.494	1.174	2.640	1.967	219.1	1.540
[illegible]																		

■ D-MARK FUTURES (IMM) DM 125,000 per DM

[illegible]

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

[illegible]

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

[illegible]

■ STERLING FUTURES (IMM) £62,500 per £

[illegible]

UK INTEREST RATES

LONDON MONEY RATES

[illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

[illegible]

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

[illegible]

EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

[illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

[illegible]

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

[illegible]

BASE LENDING RATES

[illegible]

COMMODITIES AND AGRICULTURE

Copper breaches $1 a pound as LME stocks fall

By Kenneth Gooding, Mining Correspondent

The price of copper for delivery in three months on the London Metal Exchange burst through the psychologically important $1 a pound barrier ($2,204 a tonne) yesterday, after the exchange reported that stocks in its warehouses had dropped below 100,000 tonnes, their lowest since July 1990.

Supplies of physical copper were genuinely tight, traders suggested, particularly in the US. Consequently, the premium for copper for immediate delivery over three-month metal increased to $157.50 a tonne from $120 on Monday.

"We have a potentially explosive mixture here," said Mr Robin Bhar, analyst at Brandeis (Brokers), the Pechiney subsidiary. "Volatility remains the order of the day, with copper moving in $20 and $30 leaps instead of the usual $10 [a tonne]."

He said the premium for cash copper (or backwardation) should be pulling in any surplus supplies. "But so far it is not coming in."

He warned that $2,300 a tonne was the key price target for some in the market. If the price was near that as December 11 approached – the second Wednesday in the month is when options activity usually reaches a climax – the price could spike as granters of options rushed to cover their positions.

Three-month copper reached $2,232 a tonne at one stage yesterday but eased back to $2,225, up $66 a tonne, in late trading.

Mr Bhar said it seemed the global copper supply surplus analysts had been expecting in 1996 had been erased. LME stocks were at a critical level but they had been lower in the past – 94,000 tonnes in July 1990 and 42,000 tonnes at the end of December 1987.

Mr Ted Arnold, analyst at the Merrill Lynch financial services group, said low copper prices earlier this year had caused supplies of scrap to dry up and forced the Chinese to buy more copper from the LME or merchants in June, July and August to meet domestic demand. "So a large chunk of the LME stock draw-down does reflect genuine Chinese demand."

He said some observers estimated that as much as 110,000 tonnes of the LME stocks had been destined for China. "So China is once again the single most dominant force in the copper market. Indeed, China is the wild card because nobody knows what China will do next. Some people suspect that 50,000 tonnes of that 110,000 tonnes could be delivered back to LME warehouses in Singapore if the price was right."

New projects will maintain Chile's lead in production of copper

New projects and planned expansions will enable Chile, already the world's biggest copper producer, to retain that position well into the next century, write Kenneth Gooding.

Recent announcements include the possibility that Escondida, the world's biggest copper mine and managed by BHP of Australia, might have its output lifted from 880,000 tonnes a year to 1.4m tonnes by 2007 at a cost of $2bn. However, RTZ-CRA, the world's biggest mining company, which owns 30 per cent of Escondida, said only a 125,000 tonnes a year heap-leach project, scheduled for 2001, is reasonably certain to go ahead. The rest of the expansion would not be approved for some time. Analysts suggested the heap-leach project would cost $425m.

Meanwhile, Exxon, the US resources group, is seeking approval to boost capacity of its Los Bronces copper mine from 130,000 to 240,000 tonnes a year at a cost of $570m.

Start up is scheduled for 2000 and full capacity should be reached a year later. Government approval for the expansion scheme is expected early next year.

LME WAREHOUSE STOCKS
(As at Thursday's close)
tonnes

Aluminium	-2,825	to 962,575
Aluminium alloy	-260	to 76,700
Copper	-5,050	to 98,125
Lead	+600	to 114,775
Nickel	+468	to 44,976
Zinc	-850	to 534,750
Tin	-85	to 9,235

Farmers go under cover to foil turkey rustlers

By Deborah Hargreaves

Some Devon farmers will be snuggling up with their turkeys tonight in the wake of a spate of thefts in the region. A national shortfall of turkeys has led to a price rise of 40 per cent, making the birds a very attractive target for rustlers.

"There are some farmers who have taken to sleeping with their turkeys to protect them," said Mr Paul Cooper, poultry specialist at the west country branch of the National Farmers' Union. "They are a very valuable commodity."

Mr Cooper said about 600 birds had been stolen in the region, and the NFU believes theft will be more of a problem this year than in recent years because of the high prices.

The national turkey flock is 9 per cent down on last year after high feed prices put farmers off investing in birds in June and July.

Concerns over beef after the crisis over bovine spongiform encephalopathy have seen turkey consumption rise 30 per cent this year. This has put up prices by about £10 a bird, to between £40 and £50.

"Turkey rustling is not just a problem of petty theft any more – it's in the hands of the professional gangs now," said Mr Paul Kelly, general manager at Kelly Turkey Farms in Chelmsford, Essex. "We have put intruder alarms and infra red sensors on all of our sites this year."

In the south-west, police have set up turkey patrols in combination with the NFU. Mr Cooper said the turkeys were becoming more vulnerable because of the move towards producing more free-range birds.

CBOT facing crunch on grain delivery capacity

The structure of the Chicago Board of Trade's flagship grain futures contracts is crumbling, limiting their effectiveness as a global grain pricing mechanism and casting doubt on the ability of the exchange to prevent market manipulation during critical delivery periods.

The problem lies in the antiquated design of the contracts, written decades ago when Chicago, a Great Lakes port, was a large transit point for mid-western grain. Modern grain merchandising practices long ago by-passed Chicago in favour of south-flowing river barge and rail markets, but CBOT contracts, and pricing, still revolve around a handful of atrophied registered grain warehouses in Chicago.

In the past year, three-quarters of that space has shut, and within the next few weeks, the final Chicago-based delivery point for corn, soyabean and wheat contracts may also close.

While only a fraction of grain futures contracts are resolved through delivery, US regulators require that sufficient amounts of grain be available in exchange-registered warehouses to prevent price manipulation. US commodities law also requires a futures market to reflect the dynamics of the underlying cash market.

Big commercial grain firms have long complained that the CBOT's delivery points are no longer relevant to their operations but now its constricted delivery capacity for futures contracts has attracted the attention of the Commodity Futures Trading Commission, its chief regulator.

"We are concerned about the current state of the delivery situation at the Chicago Board of Trade," said Mr John Mielke, the CFTC director of market surveillance. "Both we and the CBOT have had to substitute a greater degree of market surveillance for the usual situation, where supply and demand conditions determine market behaviour, with regulators remaining on the periphery."

Exchange officials began work to revise the grain contracts in 1990 but a politically ingrown base of floor-trader members have resisted the change. This year, a special committee presented an innovative plan to base CBOT corn and soyabean futures trading on busy Illinois river and rail markets. "These locations will be viable over the long term," said Mr Neal Kottke, chairman of the committee.

However, the plan was revised by the CBOT's board, and then rejected by the membership in September. Because futures contracts deal with forward delivery dates, even if contract changes were agreed upon today, they could only be enacted for markets deliverable in 1998.

Eliminating physical delivery in favour of a cash index settlement is unpopular, Mr Kottke said, because it is also open to manipulation.

The CBOT's grain futures contracts are crumbling — Glyn Genin

Meanwhile, the delivery capacity situation continues to deteriorate. The problems mount as the CBOT, the world's largest futures exchange, is facing its first real overseas competition for its agricultural markets. A four-year-old corn futures contract in Tokyo generates active trading, while new wheat futures markets in Sydney and in Europe are bound to pick up business as government farm policies are liberalised.

Mr Patrick Arbor, CBOT chairman, said he would like to get the domestic contract specifications resolved before adding international delivery designations.

Laurie Morse

Heating oil, gas futures surge

MARKETS REPORT

By Deborah Hargreaves

Heating oil and natural gas futures surged on the New York Mercantile Exchange yesterday following storms and the forecast of more cold weather in the north-east of the US and northern Europe.

Traders also pushed oil products higher in expectation of a further drawdown in stocks of distillates – which include heating oil – of 1m to 1.5m barrels when the American Petroleum Institute releases weekly stock figures.

Distillate stocks are already 14.5m barrels lower than they were at the same time last year.

December heating oil futures rose by 1.7 cents a gallon to 73.60 cents by mid-session yesterday with natural gas futures making a new contract high at $3.14 per million British thermal units.

Crude oil followed the lead of oil products, with the North Sea Brent market and Nymex futures prices both showing moderate gains.

"We're looking for a product led rally," said Mr Lindsay Horn, executive director of energy derivatives at Lehman Bros in London. "Crude is touching higher levels, but it is hardly a solid uptrend and the fundamentals are mixed."

Freight rates weakened, particularly in the US Gulf, where demand for Panamax grain carriers – capable of navigating the Panama canal – fell sharply. This pushed the Baltic Freight Index back 16 points to 1,488 after a brief period above the 1,500 mark last week.

Cocoa futures on the London International Financial Futures and Options Exchange slipped close to eight-month lows in early trading as the market slumped to £900 a tonne.

However, prices recovered later following strength in New York, with March futures closing unchanged at £913 a tonne.

COMMODITIES PRICES

BASE METALS · Precious Metals continued · GRAINS AND OIL SEEDS · SOFTS · MEAT AND LIVESTOCK · ENERGY · PRECIOUS METALS · LONDON TRADED OPTIONS · LONDON SPOT MARKETS · INDICES

JOTTER PAD

CROSSWORD

No.9,230 Set by DOGBERRY

ACROSS
1 Surreptitiously introduce a French playwright to an English monarch (11)
7 Toes round pound round (3)
9 Sap to go wrong again? (5)
10 Bad name for soldiers in conflict (9)
11 Crush lentil, say, keeping one clergyman back (9)
12 Guide to second and third persons (5)
13 Go back to original caterer (7)
15 God in Heaven (initially in hill) (4)
18 Poet Squab's elegy included (4)
20 Notwithstanding headland in river (7)
23 Due to go back without success (5)
24 Mischief may madden, about 6.50 (9)
26 Perhaps refer to From artist (9)
27 Note yellow flower on curtain (5)
28 Ironic-sounding grain (3)
29 Hidden sign from the typing pool (11)

DOWN
1 Soft nation, accepting right odds, may react to heat (8)
2 Not qualified to wash around thus (8)
3 Numbers gaining energy under stress (5)
4 Be keen on pursuing retreating Hound of Heaven (7)
5 Emerging with ten cans, drunk (7)
6 Bird left in pants – Queen's gone shaky (9)
7 Dodgy response to pun interrupting the French (6)
8 Close to admitting king with sore eyes (6)
14 Impressive giant to turn into a tailless rodent (9)
16 Writers landed on time, turning it over (8)
17 Uneasy without support? (8)
19 Locally prevalent misprint: 'Of Dice and Men' (7)
20 Split up, say, with submariner on top (7)
21 Store spore's cores in state of dormancy (6)
22 Aggressive remark about English Catholic being aggressive (6)
25 One lady upset another (5)

Solution 9,229

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

	Init Charge	Notes Selling Price	Buying Price	+ or -	Yield Gr's
Fidelity Currency Funds Ltd					
Pembroke Hall, Pembroke, Bermuda					
AS Accum		A$18.218		+0.003	6.40
CS Accum		C$16.735		+0.002	2.90
ECU Accum		Ecu13.526		+0.001	3.00
£ Accum		£13.177		+0.002	4.90
US$ Accum		$22.597		-0.002	4.40
Yen Accum		Y2080.6		—	0.57

Prices for dealing November 19

Jupiter Tyndall (Bermuda) Ltd					
PO Box HM1265, Hamilton, Bermuda 001 809 292 2700					
Eurobond		$16.61	17.34	+0.02	3.57
North American		$14.89	19.04	+0.01	7.15
UK Small Cos		£1.33	1.42	+0.07	0.00

[illegible]

BERMUDA (REGULATED)(**)

[illegible]

GUERNSEY (SIB RECOGNISED)

	Init Charge	Notes Selling Price	Buying Price	+ or -	Yield Gr's
M & G (Guernsey) Ltd					
Westbourne, The Grange, St Peter Port 01481 723653					
Island Global Fd	0	1012.7	1021.5	-1.1	0.9
Island Gold	0	4111.2	4357.9	—	0.131
Island UK Fd	0	1018.7	1078.6	-11.9	3.45
(Accum Units)	0	2497.4	2847.2	-25.1	3.45
Prudential Fund Managers (Guernsey) Ltd					
PO Box 57, St Peter Port Guernsey 01481 707000					
Prudential Money Funds Ltd					
Managed Sterling		140.1	140.2		3.98
Managed Dollar	5	$14.26	14.27		3.67
Dollar Deposit		$10.02	10.05		3.74
Rothschild Asset Management (CI) Ltd					
PO Box 242, St Peter Port, Guernsey 01481 713713					

[illegible]

GUERNSEY (REGULATED)(**)

[illegible]

IRELAND (SIB RECOGNISED)

[illegible]

IRELAND (REGULATED)(**)

[illegible]

ISLE OF MAN (SIB RECOGNISED)

[illegible]

ISLE OF MAN (REGULATED)(**)

[illegible]

JERSEY (SIB RECOGNISED)

[illegible]

JERSEY (REGULATED)(**)

[illegible]

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LUXEMBOURG (SIB RECOGNISED)

ABN AMRO Funds (u)
4 Nov Jean Monet, L-2180 Luxembourg 352 424940320

	Init Charge	Notes	Selling Price	Buying Price	+or-	Yield Gr's
Latin America Equity			$40.38	40.00	—	-
North America Equity			$83.24	83.66	—	-
Asian Tigers Equity			$63.44	68.07	—	-
Europe Equity			$76.38	75.74	—	-
Germany Equity			[illegible]	137.62	—	-
Japan Equity			$48.35	48.83	—	-
Europe Bond			$61.08	61.90	—	-
US Bond			$59.64	59.79	—	-
Global Bond			$61.43	61.78	—	-
Germany Bond B			[illegible]	108.57	—	-
Spain Bond			[illegible]	101.24	—	-
Eastern Europe Equity F			[illegible]	177.24	—	-
China Equity F			$37.94	38.09	—	-
Switzerland Equity			[illegible]	126.68	—	-

Fidelity Funds - Contd.

Country Select Funds

	Init Charge	Notes	Selling Price	Buying Price	+or-	Yield Gr's
ASEAN			$20.14		+0.42	-
Asian Special Situations			$11.12		-0.09	-
Australia			A$11.10		+0.00	1.24
Emerging Markets			$8.365		-0.023	-
European Sm Cos F			DM14.01		+0.01	-
France			FF107.23		-0.24	-
Germany			DM21.78		-0.15	-
Hong Kong			$53.01		+0.57	0.55

MERCURY ASSET MANAGEMENT · FLEMING GROUP · MIDLAND INTL · PRICOA · SCHRODER · ALLIANCE CAPITAL · CREDIT SUISSE · MERRILL LYNCH · SOUTHERN INTERNATIONAL SICAV · LUXEMBOURG (REGULATED)(**) · OFFSHORE INSURANCES

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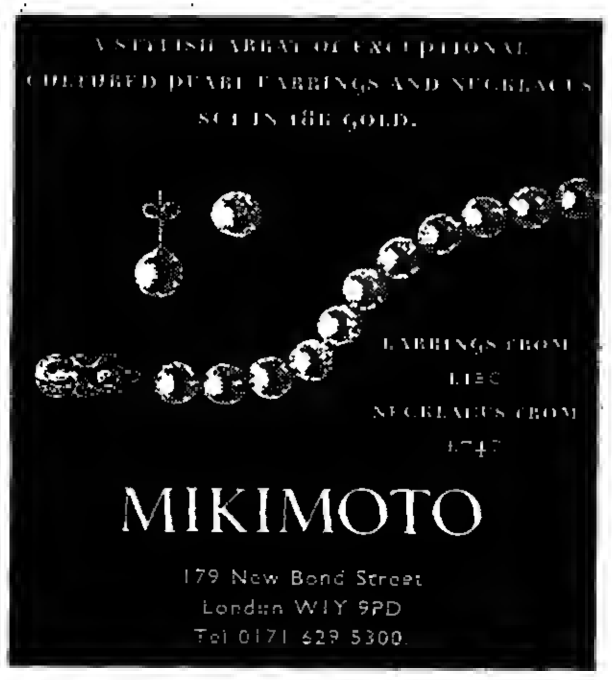


OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

BANKS, MERCHANT

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

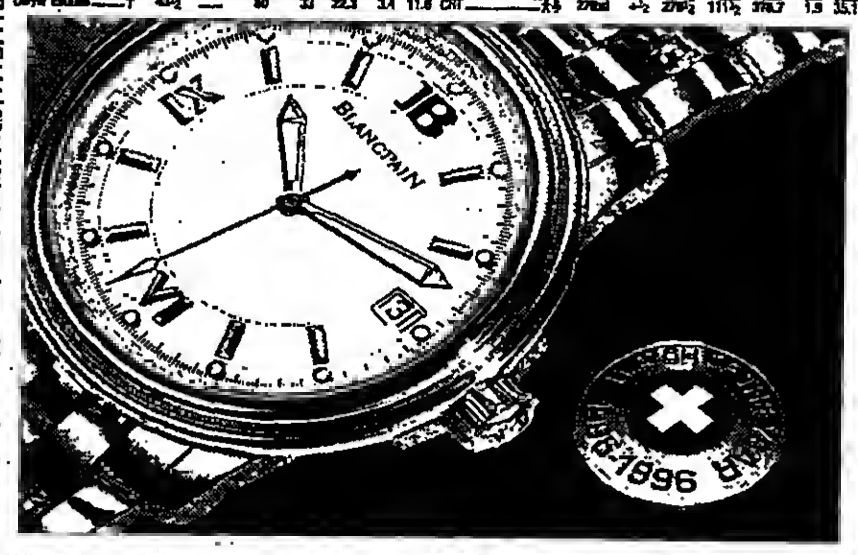
OTHER FINANCIAL

PAPER, PACKAGING & PRINTING

PAPER, PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY



PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, FOOD - Cont.

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Anglo Am Ind		£20½		£34½	£20½	1,644	3.4	♦
Barlow		855		£10½	655	1,112	2.5	♦
Gold Flds Prop R		123		170	130	12.6	6.3	10.6
HK Props		62	—	98	60	2.49	13.3	–
SASOL	♥	845		718	483	3,777	1.6	–
SA Brews		£15½		£20½	£14¾	4,904	2.1	♦
Standard Bank		£21¾		£22½	£21¾	2,009	1.8	20.6
Tiger Oats	†	790		1270	770	1,180	1.8	17.9
Tongaat-Hulett		701½xd	-1½	1247	676¼	863.9	2.4	♦

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' formula.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ♦ Figures or report awaited
- ♥ Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- ✡ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Rule 4.2(a) Irish incorporated non-listed companies.
- # Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- ♦ Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ♠ Unregulated collective investment scheme.

a Yield based on annualised dividend
b Figures based on prospectus or other official estimates.
f Assumed dividend yield after rights issue.
h Assumed dividend yield after scrip issue.
r Rights issue pending
q Earnings based on preliminary figures.
s Dividend yield excludes a special payment.
t Indicated dividend yield, p/e ratio based on latest annual earnings.
u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings
z Dividend yield includes a special payment

F Yield based on prospectus or other official estimates for 1996-97.
G Assumed yield after pending scrip and/or rights issue.
H Yield based on prospectus or other official estimates for 1995.
K Yield based on prospectus or other official estimates for 1996
L Estimated annualised yield, p/e based on latest annual earnings.
M Yield based on prospectus or other official estimates for 1995-96.
N Dividend is paid in whole or part as a

FID (Foreign Income Dividend)
Q Forecast annualised yield, p/e based on prospectus or other official estimates
W Pro forma figures.
Z Dividend yield to date.

Abbreviations:
xd ex dividend;
xc ex scrip issue;
xr ex rights;
xa ex all;
xd ex capital distribution.

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LONDON STOCK EXCHANGE

Late flurry of buying follows Wall Street rise

MARKETS REPORT

By Steve Thompson, UK Stock Market Editor

A surprising opening rally by Wall Street, plus the resurgence of bid talk, saw UK stocks move ahead strongly in the last hour of trading yesterday.

By the close, a late flurry of buying interest drove the FTSE 100 index up 16.0 to 3,978.1.

The late buying demand tended to be concentrated in the leaders, however, leaving the second liners and smaller stocks languishing.

The FTSE 250 index settled only 0.1 higher at 4,400.3, while the FTSE SmallCap was down 3.1 at 2,160.4.

Wall Street's strong early showing came in the wake of some weak housing starts data from the US. On Monday, Wall Street's run of eight straight gains to record highs had been brought to a halt, with the Dow Jones Industrial Average closing fractionally lower.

But the Dow was in super form yesterday, racing up over 40 points shortly after the opening, and injecting renewed strength into London.

Although London was tentative during the morning, sentiment was never bearish, with dealers pointing to Monday's excellent public sector debt repayment news, as helping the buyers.

Gilts made further progress during the day, closing around the session high, sustained by the bullish PSDR and a firm showing by global bonds.

The takeover stories that began to circulate freely during the afternoon centred on Zeneca, Cookson and British Gas, all recent bid favourites.

The bid picture also included London Electricity, whose shares have been keenly supported over the past few days following stories that Entergy, a US group, is about to pounce. Entergy said, however, that it was not involved in ongoing discussions with "English electricity companies".

Zeneca shares moved towards the top of the FTSE 100 performance table as the speculation increased, while British Gas made further progress in exceptionally heavy two-way trading despite general scepticism about a bid move by Shell. Orange, the cellular phones group, was the best Footsie performer amid suggestions that BZW, a long-term bear, had turned buyer, saying the stock was oversold.

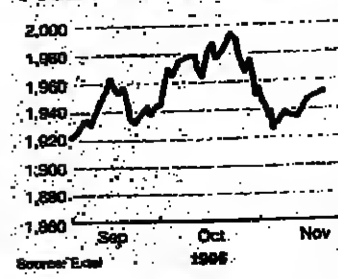
While the speculators were pinning their hopes on more takeovers, there were other serious shocks for the market.

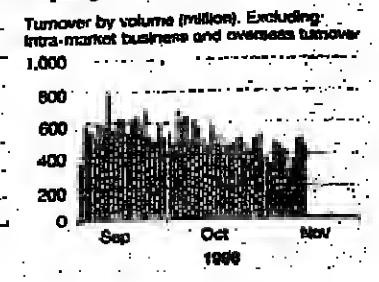
No less than four profit warnings appeared among the smaller stocks, affecting Country Casuals, the retailer, Porvair, the shoe manufacturer, Nelson Hurst, the insurance broker and Widney, the engineering group.

Another talking point was the sprinkling of rights issues, of which the £173m cash call from Allied Colloids was the most significant.

The day's results news encouraged some of the best individual Footsie performances, notably from BOC, Vodafone and EMI.

Turnover at the 6pm count was a slightly disappointing 661.1m shares, with British Gas again accounting for almost 5 per cent of the total. Customer turnover on Monday was a lowly £985.8m.





Indices and ratios

FTSE 100	3978.1	+16.0
FTSE 250	4400.3	+0.1
FTSE 350	1980.2	+6.3
FTSE All-Share	1954.08	+5.51
FTSE All-Share yield	3.83	3.84
FT 30	2797.8	+20.1
FTSE Non-Fins p/e	17.85	17.81
FTSE 100 Fut Dec	3995.0	+26.0
10 yr Gilt yield	7.49	7.50
Long gilt/equity yld ratio	2.02	2.03

Best performing sectors

1 Gas Distribution ....+1.7
2 Diversified Inds ....+1.5
3 Pharmaceuticals ....+1.3
4 Extractive Inds ....+1.2
5 Chemicals ....+1.1

Worst performing sectors

1 Household Goods ....−3.5
2 Electronic & Elec ....−0.5
3 Building & Const ....−0.5
4 Leisure & Hotels ....−0.4
5 Alcoholic Beverages ....−0.4

Vodafone figures please

By Joel Kibazo, Peter John and Lisa Wood

Better than expected first half figures from Vodafone Group pleased the market and helped the stock to move steadily ahead. Profits came in at £252.4m against market predictions of between £230m and £235m.

By the close, the shares had put on 10½ to 254p in strong trading of 13m, with the market encouraged by Vodafone's £77m purchase of Peoples Phone, also announced yesterday. The company admitted the takeover is a "defensive" move and it also took the opportunity to deny recent market rumours suggesting it has had merger talks with US group AT&T.

Mr Jim Ross at ABN Amro Hoare Govett is a buyer of the stock and following an analysts' meeting with the company said: "The most important news that emerged at the meeting is that the company believes it will be able to stabilise revenues per customer, which have been falling by more than 10 per cent per annum in recent years. This makes it much easier for the company to meet market expectations for growth."

In the rest of the sector, a leading brokerage was said to have shifted its stance in Orange. The shares also appreciated 10¼ to 181p, with turnover soaring to 12m, making it the best performing stock in the FTSE 100 index yesterday.

Barclays active

Barclays gained 10½ to 976p as Kleinwort Benson followed up a presentation to fund managers with a positive piece of research.

The broker focused on the growth of the credit card industry which was launched in the UK by Barclaycard 30 years ago. It shows that, in contrast to fears of collapsing margins, growth is robust and providing an increasing share of the high street bank's profits.

Kleinwort estimates that the credit card arm will generate £310m of profits this year – 15 per cent of the total – and that proportion will grow to 20 per cent next year. The house also has a share price target of around 1120p.

BOC firmer

BOC jumped sharply as investors responded with a surge of relief to the chemical group's full-year figures.

The shares, badly hit by a poorly handled third quarter trading statement earlier in the year, recovered as the market's worst fears remained unrealised.

One broker had recently lopped £20m off its current year forecast on the basis that sterling's strength would hit US earnings. Also, there were fears about the company's vacuum business and its healthcare arm.

In the event, the currency effect for the year was minimal and the statement was positive on all units. Some of the bottom-of-the-range forecasts were being edged higher yesterday, with £450m for next year appearing as a consensus.

With fair value for the shares reckoned to be at least 900p, the underlying stock bounced 44¼ to 880½p.

Commercial Union slipped 9 to 634½p as the effects of a downgrade by Credit Lyonnais Laing was compounded by switch advice from SBC Warburg. Warburg advised clients to shift holdings into Royal & Sun Alliance, which gained 6½ to 430p.

Sun Life & Provincial was heavily traded and, after the market closed Prudential revealed it had boosted its stake in the life insurance group from just under 7 per cent to above 9 per cent. Sun Life eased a penny to 251p and the Pru eased 1½ to 462p.

Iceland weakened one penny to 80½p, with 15m shares traded, after an overnight "bed and breakfast" or tax-related deal. Unigate hardened 2 to 432p following interim results in line with expectations. Analysts said that the company had done adequately given the difficult market conditions.

Yorkshire Food Group, which issued a profits warning earlier this month, continued to weaken, falling 6½ to 13p.

EMI hardened 23½ to 1294½p after interim results sent a sigh of relief through the market. Mr Anthony de Larrinaga, an analyst at Panmure Gordon, said that for EMI, which demerged from Thorn EMI this year, to show growth was encouraging at a time when competitors in the music industry had not performed well and when trade figures suggested that global music sales were plateauing.

W H Smith fell 13 to 428p after wild rumours in the market that the company was about to issue an unexpected trading statement, provoking fears that this could be a profits warning just days before it enters the closed season.

It was understood, however, that the company has no such plans. At its annual meeting, the company said performance was in line with expectations.

Dixons hardened 10½ to 568p, which was attributed to marketmakers not wanting to be short of stock ahead of Christmas.

Thorn fell 11½ to 302p, as the shares continued to weaken after interim results earlier this week. Allied Colloids fell on news that it plans to buy CPS Chemical of the US for $390m and fund the acquisition with a two-for-seven rights issue to raise £173m. The shares dropped 5 to 138p but, at that level, were above the ex-rights price of 136p. Analysts liked the acquisition but were unhappy with the interim figures and one broker cut its full year forecast by almost 20 per cent to £45m.

Country Casuals fell 36 to 64p after issuing a full year profits warning. It said that results would be materially below market forecasts. In particular, the company blamed worse than expected orders at its Lerose garment manufacturing subsidiary.

Enterprise Inns advanced 12 to 250½p after better than expected full year results, with the group looking for growth both organically and through acquisitions. There were rumours that, should Bass be obliged to divest some of its pubs as a condition of acquiring the majority of Carlsberg-Tetley, Enterprise might be a potential buyer. However, these rumours were scotched by the pub company.

Imperial Tobacco gained 2½ to 371½p on old talk of a dawn raid by BAT Industries, which rose 2 to 438p.

Computer consultancy group Druid came to the stock market at a premium to its flotation price. The shares were placed at 275p but opened at 289½p and closed at 285½p.

Profits warnings hit Porvair, which fell 57½ to 207½p, Nelson Hurst, which fell 40 to 146½p and Widney, 15½ off at 49½p.

FT 30 INDEX

	Nov 19	Nov 18	Nov 15	Nov 14	Nov 13	Yr ago	*High	*Low
FT 30	2787.8	2777.7	2775.8	2781.0	2785.5	2815.9	2885.2	2668.8
Ord. div. yield	4.09	4.12	4.11	4.13	4.08	4.10	4.22	3.79
P/E ratio net	16.88	16.79	16.79	16.70	16.91	15.65	17.46	15.80
P/E ratio nil	16.72	16.60	16.62	16.54	16.75	15.49	17.30	15.71

FT 30 since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2786.7	2784.6	2780.3	2780.5	2781.5	2783.5	2788.0	2790.5	2794.3	2797.9	2778.5

	Nov 19	Nov 18	Nov 15	Nov 14	Nov 13	Yr ago
SEAQ bargains	35,343	40,044	37,957	34,250	33,685	30,681
Equity turnover (£m)†	-	985.8	1222.9	1324.8	1124.8	2180.0
Equity bargains†	-	26,802	28,388	23,698	22,612	37,524
Shares traded (ml)†	-	1028.4	449.6	504.8	493.8	780.3

†Excluding intra-market business and overseas turnover.

	Nov 19	Nov 18	Nov 15	Nov 14	Nov 13	Yr ago	*High	*Low
FTSE AIM	1028.40	1030.00	1029.30	1028.00	1025.60	–	1140.40	965.70

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■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	487	Total Highs	75	Total contracts	39,201
Total Falls	651	Total Lows	112	Calls	20,562
Same	1,454			Puts	18,639

Nov 19 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	3980.0	3997.0	+27.0	4001.0	3962.0	8721	55016
Mar	3988.0	4016.0	+27.0	3995.0	3987.0	521	4413
Jun	-	4031.0	+27.0	-	-	0	1783

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4410.0	4410.0	-24.0	4410.0	4410.0	12	4181
Mar	-	4448.0	-24.0	-	-	0	670

■ FTSE 100 INDEX OPTION (LIFFE) (*3977) £10 per full index point

	3800 C	3800 P	3850 C	3850 P	3900 C	3900 P	3950 C	3950 P	4000 C	4000 P	4050 C	4050 P	4100 C	4100 P	4150 C	4150 P
Dec	[illegible]															
Jan	[illegible]															
Feb	[illegible]															
Mar	280½	45	218½	56	183½	71	149	87½	120	[illegible]						
Jun†	302	80½			228	144			178½	[illegible]						

Calls 2,964 Puts 4,436

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	3825		3875		3925		3975		4025		4075		4125		4175	
Dec	182	11½	138½	17	97½	26	63	61	36	[illegible]						
Jan	207½	23½	166½	32½	127½	43½	92	58	62½	[illegible]						
Feb	238½	35½	193½	45½	156½	58½	123½	75½	94	[illegible]						
Mar	236½	50	200	63	166	77½	134½	95½	105½	[illegible]						
Jun†	287	88			220½	118½			163½	[illegible]						

Calls 3,881 Puts 7,013 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§6	F.P.	10.8	7	7	†Barrasford	7		-	-	-	-
9	F.P.	8.15	4¼	4	†Beaufort	4¼		-	-	-	48.6
§3	F.P.	7.56	4¼	4	†Beechcroft	4		-	-	-	13.2
§157	F.P.	37.7	177½	172½	Brands Hatch	172½		W3.5	1.9	2.5	17.4
§130	F.P.	37.5	162½	130	Britt Allcroft	159½		L1.6	3.0	1.3	28.2
§135	F.P.	48.5	167½	152½	Charles Taylor	166½		L4.2	0.3	3.2	52.8
3	F.P.	7.41	4¼	4	†Corp Exec Search	4¼		-	-	-	-
160	F.P.	10.2	164½	155½	†Deep Sea Leisure	162½		-	-	-	-
§275	F.P.	65.3	298½	285½	Druid Grp	285½		-	-	-	31.1
§	F.P.	32.3	610	600	First Russian C	610		-	-	-	-
100	F.P.	94.5	113½	81½	†Geo Inter Med	94½	-1½	-	-	-	-
§100	F.P.	24.9	99½	99	Hlthcare Reform	99½		-	-	-	-
114	F.P.	10.8	132½	122½	†Jardinerie Ints	122½		-	-	-	-
§265	F.P.	138.8	310	292½	John D Sports	298½		L4.3	2.5	1.8	28.1
§175	F.P.	174.5	182½	174½	Limelight	174½	-3	bW4.7	2.1	3.4	18.1
72	F.P.	28.3	79½	67½	†Loftus Road	71	+1	-	-	-	-
§180	F.P.	28.8	222½	187½	†Majestic Wines	210½		-	-	-	12.3
§10	F.P.	4.23	12¾	11¼	†Means Group	11¼		K0.2	-	2.1	-
75	F.P.	5.48	93½	82½	†Mondas	90½		-	-	-	-
§125	F.P.	22.9	135½	124½	Provend	132½		RW3.6	2.4	3.4	13.5
§154	F.P.	22.1	248½	187½	Oriental Rest	231½		-	-	-	26.2
§125	F.P.	33.2	137½	130½	Scot Highland Ht	136½		R3.0	2.4	2.7	13.8

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Nov 19	% chg on day	Nov 15	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	1945.66	-1.2	1969.03	1867.20	1.56	-	2520.73	1882.04
■ Regional Indices								
Africa (14)	2467.72	-0.3	2475.94	2484.81	3.12	35.38	3553.86	2332.70
Australasia (6)	2131.76	-1.6	2166.67	2292.83	2.63	21.25	2827.34	2005.75
North America (12)	1776.01	-1.4	1801.87	1632.57	0.73	67.20	2186.39	1612.25

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FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Nov 19	Day's chge%	Nov 18	Nov 15	Nov 14	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	3978.1	+0.4	3962.1	3958.2	3926.1	3604.1	3.97	2.04	15.41	[illegible]	[illegible]
FTSE 250	4400.3	[illegible]	4400.2	4409.9	4398.9	3941.2	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]											

■ FTSE Actuaries Industry Sectors

[illegible]

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	[illegible]										
FTSE 250	[illegible]										
FTSE 350	[illegible]										

■ FTSE 350 Industry baskets

[illegible]

For further information on the FTSE Actuaries Share Indices please contact FTSE International on 0171 448 1810. The FTSE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FTSE International in conjunction with the Faculty of Actuaries and the Institute of Actuaries. © FTSE International Limited 1996. All Rights reserved. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence.

TRADING VOLUME

■ Major Stocks Yesterday

[illegible]

LEGAL NOTICES

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 19 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Nov 19 / Frs.)

[illegible]

CZECH REP (Nov 19 / Korun)

[illegible]

DENMARK (Nov 19 / Kr)

[illegible]

FINLAND (Nov 19 / Mkn)

[illegible]

FRANCE (Nov 19 / Frs.)

[illegible]

GERMANY (Nov 19 / Dm.)

[illegible]

GREECE (Nov 19 / Drachma)

[illegible]

ITALY (Nov 19 / Lire)

[illegible]

NETHERLANDS (Nov 19 / Fls.)

[illegible]

NORWAY (Nov 19 / Kroner)

[illegible]

POLAND (Nov 19 / Zloty)

[illegible]

PORTUGAL (Nov 19 / Escudo)

[illegible]

SPAIN (Nov 19 / Pta.)

[illegible]

SWEDEN (Nov 19 / Kronor)

[illegible]

SWITZERLAND (Nov 19 / Frs.)

[illegible]

TURKEY (Nov 19 / Tk.Lira)

[illegible]

PACIFIC

JAPAN (Nov 19 / Yen)

[illegible]

HONG KONG (Nov 19 / H.K.$)

[illegible]

INDONESIA (Nov 19 / Rupiah)

[illegible]

MALAYSIA (Nov 19 / MYR)

[illegible]

NEW ZEALAND (Nov 19 / NZ $)

[illegible]

SINGAPORE (Nov 19 / S$)

[illegible]

AUSTRALIA (Nov 19 / Aust$)

[illegible]

SOUTH KOREA (Nov 19 / Won)

[illegible]

TAIWAN (Nov 19 / TW $)

[illegible]

THAILAND (Nov 19 / Baht)

[illegible]

NORTH AMERICA

CANADA

MONTREAL (Nov 19 / Can $) 4 pm close

[illegible]

TORONTO (Nov 19 / Can $) 4 pm close

[illegible]

AFRICA

SOUTH AFRICA (Nov 19 / Rand)

[illegible]

Prices supplied by Telekurs

NOTES - Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. xd Ex div. xc Ex scrip issue. xr Ex rts. xa Ex all. † Priced in US $. (k) S Korea prices Nov 19 unavailable. Some Canada prices may be pre-close.

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INDICES

	Nov 19	Nov 18	Nov 17	1996 High		1996 Low	
Argentina							
General(29/12/77)	(u)	17705.80	17483.26	18881.85	20/5	15287.25	22/8
Australia							
All Ordinaries(1/1/80)	2365.0	2383.8	2387.3	2387.30	15/11	2088.10	17/7
All Mining(1/1/80)	941.7	951.8	954.6	1118.40	8/5	921.30	12/11
Austria							
Credit Aktien(30/12/84)	368.92	368.42	368.79	384.88	31/5	348.19	8/9
Traded Index(2/1/91)	1081.14	1084.45	1087.55	1142.51	28/5	975.27	2/1
Belgium							
BEL20(1/1/91)	1866.91	1872.17	1868.46	1872.17	18/11	1574.80	2/1
Brazil							
Bovespa(29/12/83)	(u)	65583.0	(c)	67888.80	21/10	40801.00	2/1
Canada							
Metals Minls♦(1975)	(u)	5428.72	5467.33	5824.40	8/5	4687.47	18/1
Composite♦(1975)	(u)	5872.70	5870.80	5872.70	18/11	4738.70	15/1
Portfolio§§(4/1/83)	(u)	2812.67	2816.75	2816.75	15/11	2327.30	12/1
Chile							
IGPA Gen(31/12/80)	(u)	5171.28	5202.35	5804.33	8/1	5171.28	18/11
Denmark							
CopenhagenSE(3/1/83)	448.59	448.72	451.48	464.28	21/10	368.49	2/1
Finland							
HEX General(28/12/90)	2354.28	2368.94	2367.50	2369.94	15/11	1881.67	10/1
France							
SBF 250(31/12/90)	1502.34	1496.72	1502.55	1502.55	15/11	1280.18	2/1
CAC 40(31/12/87)	2240.05	2228.61	2240.33	2240.33	15/11	1887.85	11/1
Germany							
FAZ Aktien(31/12/58)	960.84	964.48	969.65	969.65	15/11	818.56	2/1
Commerzbank(1/12/53)	2800.4	2816.0	2823.70	2823.70	15/11	2370.10	2/1
DAX‡(30/12/87)	2764.09	2763.84	2795.80	2795.80	15/11	2284.86	2/1
Greece							
Athens SE(31/12/80)	917.10	914.82	880.39	1017.88	4/3	872.88	7/8
Hong Kong							
Hang Seng(31/7/64)	13056.93	13042.8	12889.3	13056.93	19/11	10204.87	2/1
India							
BSE Sens.(1979)	3139.33	3171.58	3139.02	4069.28	18/6	2826.08	25/1
Indonesia							
Jakarta Comp.(10/8/82)	615.20	620.86	616.89	630.21	24/4	512.48	2/1
Ireland							
ISEQ Overall(4/1/88)	2639.96	2649.70	2659.36	2700.04	4/10	2234.81	2/1
Italy							
Banca Comm Ital(1972)	648.92	648.78	650.54	674.18	20/5	572.21	27/3
MIB General(2/1/95)	1101.0	1101.0	1104.0	1142.00	20/5	980.00	27/3
Japan							
Nikkei 225(16/5/49)	20956.18	20796.37	20829.73	22666.80	26/6	19734.70	13/3
Nikkei 300(1/10/82)	293.45	292.25	293.88	319.70	26/6	284.48	11/3
Topix(4/1/68)	1562.08	1558.33	1564.74	1722.13	26/6	1524.12	13/3
2nd Section(4/1/68)	2013.81	2013.54	2019.26	2251.48	2/7	1962.78	14/3
Malaysia							
KLSE Comp.(4/4/86)	1196.06	1194.40	1192.18	1196.08	19/11	893.10	2/1
Mexico							
IPC(Nov 1978)	(u)	3366.22	3385.13	3433.75	27/8	2736.36	8/3
Netherlands							
CBS TtlRtnGen(End 83)	705.9	706.3	702.3	708.38	18/11	538.80	2/1
CBS All Shr(End 83)	414.3	414.6	412.5	414.80	18/11	328.70	2/1
New Zealand							
Cap. 40(1/7/86)	2342.34	2352.36	2351.94	2367.78	21/10	2025.14	7/6
Norway							
Oslo SE(Ind)(2/1/83)	1549.13	1537.95	1531.42	1549.13	19/11	1250.88	30/1
Philippines							
Manila Comp(2/1/85)	3109.02	3105.55	3072.79	3374.48	5/7	2578.97	2/1
Portugal							
BVL 30(4/1/93)	2077.00	2082.34	2080.77	2082.34	18/11	1602.81	2/1
Singapore							
SES All-Spore(2/4/75)	533.17	534.66	538.11	610.37	5/2	503.78	21/10
South Africa							
JSE Gold(28/9/78)	1687.2♥	1714.3	1720.8	2030.40	29/5	1348.40	2/1
JSE Ind.(28/9/78)	8086.9♥	8135.8	8048.3	8738.38	25/1	7882.40	21/8
South Korea							
KoreaCompEx**(4/1/80)	747.05	750.82	750.29	986.84	7/5	729.53	11/11
Spain							
Madrid SE(30/12/85)	390.81	389.17	389.72	390.81	19/11	322.75	11/1
Sweden							
AffarsvaldsGen(1/2/37)	2243.2	2248.9	2251.4	2251.40	15/11	1706.60	22/1
Switzerland							
Swiss Bk.Ind(31/12/58)	1836.39	1838.30	1840.85	1840.85	15/11	1316.19	17/1
SBC General(1/4/87)	1308.25	1308.76	1308.67	1308.67	15/11	1114.47	28/1
Taiwan							
WeightedPr.**(30/6/66)	6687.06	6659.72	6687.44	6687.88	19/11	4880.22	6/2
Thailand							
Bangkok SET(30/4/75)	964.19	942.34	1000.73	1416.04	6/2	985.34	15/10
Turkey							
Istanbul Comp(Jan 1986)	79861.3	83172.8	82541.8	84882.25	11/11	38779.30	2/1
WORLD							
MS Capital Intl(1/1/70)	(u)	821.8*	823.4	823.48	15/11	725.80	15/1
CROSS-BORDER							
Eurotrack 100(26/10/90)	1824.80	1827.08	1828.08	1827.08	18/11	1604.40	11/1
Euro Top-100(26/6/90)	1339.72	1334.29	1337.45	1339.72	19/11	1139.81	11/1
HSBC JC Dvgn(31/12/88)	(u)	405.86	404.09	405.86	18/11	344.18	2/1
ING Bngs Emrg(7/1/92)	159.50	159.48	159.39	165.91	4/7	147.38	2/1

INDEX FUTURES

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
CAC-40 (200 x index)							
Nov	2232.0	2244.0	+13.0	2245.0	2227.0	8,698	22,999
Dec	2237.0	2248.5	+12.5	2449.0	2233.0	586	19,315
DAX							
Dec	2780.0	2786.5	+11.5	2791.0	2765.0	23,708	–
Mar	2799.0	2807.5	+13.5	2807.5	2798.5	1,068	–
OMX							
Nov	1748.00	1747.75	–7.75	1755.00	1743.00	6,882	19,648
Dec	1757.50	1756.75	–10.00	1763.50	1752.25	3,992	15,259
SOFFEX							
Dec	3886.0	3897.5	+12.5	3898.5	3877.0	2,309	20,869

** Sat Nov 16: Taiwan Weighted Price 6606.10; Korea Comp Ex 756.67. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall; Toronto Comp./Metals A – 1,000; JSE Gold – 255.7; JSE 25 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Nov 19 – 2781.89 +12.69.

† Correction. * Calculated at 15.00 GMT. ♣ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♠ The DJ Ind. index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

US INDICES

Dow Jones	Nov 18	Nov 15	Nov 14	1996 High	1996 Low	Since compilation High	Since compilation Low
Industrials	6348.61	6348.03	6313.00	6348.03 (15/11)	5032.94 (10/1)	6348.03 (15/11/96)	41.22 (8/7/32)
Home Bonds	103.63	103.61	103.84	106.09 (14/2)	100.99 (15/7)	108.27 (18/10/93)	54.99 (1/10/81)
Transport	2242.63	2221.45	2228.82	2286.20 (22/5)	1882.71 (18/1)	2286.20 (22/5/96)	13.23 (8/7/32)
Utilities	233.37	234.91	233.16	235.88 (7/11)	204.86 (30/7)	256.46 (31/8/93)	10.53 (8/7/32)

DJ Ind. Day's high 6407.66 (6414.37) Low 6297.34 (6277.22) (Theoretical♠)
Day's high 6376.36 (6377.85) Low 6324.10 (6312.82) (Actual♠)

Standard and Poors	Nov 18	Nov 15	Nov 14	1996 High	1996 Low	Since compilation High	Since compilation Low
Composite‡	737.02	737.63	735.88	737.62 (15/11)	598.48 (10/1)	737.62 (15/11/96)	4.40 (1/6/32)
Industrials♥	865.30	866.57	864.69	866.67 (15/11)	702.07 (15/1)	866.67 (15/11/96)	3.52 (30/6/32)
Financial	81.02	80.73	80.44	81.02 (18/11)	58.67 (10/1)	81.02 (18/11/96)	7.13 (4/9/74)
NYSE Comp.	389.90	390.02	389.01	390.02 (15/11)	321.41 (10/1)	390.02 (15/11/96)	4.64 (25/4/42)
Amex Mkt Val	584.10	585.41	585.36	614.99 (22/5)	525.60 (16/7)	614.99 (22/5/96)	29.13 (9/12/74)
NASDAQ Comp	1254.57	1261.81	1270.36	1270.36 (14/11)	988.57 (15/1)	1270.36 (14/11/96)	54.87 (3/10/74)

■ RATIOS

	Nov 15	Nov 8	Nov 1	Year ago
Dow Jones Ind. Div. Yield	2.06	2.09	2.16	2.35
	Nov 13	Nov 6	Oct 30	Year ago
S & P Ind. Div. yield	1.87	1.89	1.95	2.03
S & P Ind. P/E ratio	22.64	23.58	22.80	18.37

■ NEW YORK ACTIVE STOCKS

Monday	Stocks traded	Close price	Change on day
Deutsche T	18,127,900	21⅛	+⅜
Brit Petr	10,038,700	136⅝	+4¼
Tyco Toys	8,079,400	11½	+4½
IBM	5,773,500	147	+2
AT & T	4,394,200	37⅞	–⅛
Hewlett-P	4,099,800	50⅛	–¾
Pepsico	3,772,100	31⅝	–⅜
Bay Netwk	3,450,200	23⅞	–⅛
McDonn D	3,350,200	52¼	–4⅛
General Mt	2,472,100	55¼	+¼

■ TRADING ACTIVITY

● Volume (million)	Nov 18	Nov 15	Nov 14
New York SE	388,044	528,823	478,546
Amex	19,312	24,162	22,617
NASDAQ	507,882	630,457	618,485
NYSE			
Issues Traded	3,299	3,303	3,309
Rises	1,156	1,284	1,471
Falls	1,220	1,181	977
Unchanged	923	858	861
New Highs	183	260	200
New Lows	30	25	21

■ S&P 500	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Dec	740.25	740.10	–0.25	741.00	739.00	82,297	191,442
Mar	–	747.05	–	–	–	1,451	11,726

■ Nikkei 225	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Dec	20800.0	20990.0	+190.0	21000.0	20760.0	22,011	212,392
Mar	20840.0	21030.0	+230.0	21030.0	20810.0	5,952	21,306

Open interest figures for previous day.

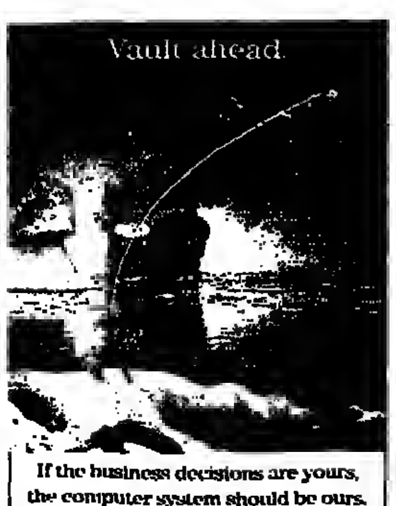
■ TOKYO - MOST ACTIVE STOCKS: Tuesday, November 19, 1996

	Stocks Traded	Closing Prices	Change on day
Ga-Jo-En Kanko	7.3m	128	+25
Toyota Motor	5.0m	2900	+30
Honda Motor	3.7m	2930	+60
NEC Corp	3.2m	1330	+10
Green Cross Cp	3.1m	585	-1
Nissan Motor	3.0m	772	-4
Sanyo Electric	2.7m	530	-10
Hitachi	2.4m	1010	-10
Kawasaki Steel	2.3m	352	+3
Sumitomo Mtl Ind	2.3m	305	-2

NEW YORK STOCK EXCHANGE PRICES

4 pm close November 19

1996 High	1996 Low	Stock	Div	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chge Prev. Close
31 1/4	17 3/4	AAR	0.48	1.7	24	152	27 7/8	26 7/8	27 1/2	+1/2
46 3/8	33	AMP	1.00	2.7	16	17290	36 1/8	34 7/8	36 1/8	+1 1/2
97 1/2	68	AMR			16	6780	92	87 7/8	91 5/8	+3 1/8
50 1/2	37 3/8	ASA x	1.40	3.6	20	342	39 3/8	39 1/8	39 3/8	+1/8
54 7/8	38 1/8	AbbtL	0.96	1.8	22	9028	53 3/4	53 1/4	53 3/4	+1/2
17 1/4	12 1/4	AbitibiPr	0.40	2.6	7	512	15 1/2	15 3/8	15 3/8	-1/8
20 1/4	15 1/2	ABM Ind	0.35	2.0	18	33	17 1/2	17 3/8	17 1/2	+1/8
22 1/2	13 7/8	Acpmcein			16	74	20 1/2	19 7/8	20 1/2	+1/2
59 3/4	37 3/4	ACE Ltd	0.56	0.9	14	428	u59 3/4	59	59 3/4	+1/2
10 1/8	9 1/8	ACM Gvt In x	0.90	8.6	6	65	10 1/4	10 5/8	10 1/4	+5/8
7 7/8	6 5/8	ACM GvOpp x	0.57	7.8		289	7 3/8	7 1/4	7 1/4	
9 3/4	8 1/8	ACM Man x	0.90	9.2		243	u9 3/4	9 5/8	9 3/4	+1/8
13 7/8	6 1/8	Acme Elect	0.32	4.5	54	86	7 1/8	7 1/8	7 5/8	-1/4
19	13 3/8	Acme Mills			13	392	u19	18 3/8	18	+1/8
33 3/4	27 3/4	Acordia	0.72	2.5	14	6	29 1/8	29 1/4	29 1/4	
24 3/8	12	Acuson			111	1783	23 1/2	23	23 3/8	-1/4
31	17 7/8	Adams Expr	0.55	2.6	1	202	u21	20 7/8	20 7/8	-1/8
25 3/4	10 1/4	AdvMic			26	14255	25 1/2	25	25 1/4	+3/8
11 1/8	8 1/2	Advest Grp	0.16	1.9	7	279	10	9 7/8	10	+1/4
26 1/8	9 1/8	Advo Inc	0.10	0.8	08	165	12 7/8	12 3/4	12 3/4	+1/8
58 5/8	41 1/8	Aegon	1.45	2.6	17	21	58 1/4	55 7/8	56 1/8	-1/8



NYSE PRICES

4 pm close November 19

Continued from previous page

1996 High	Low	Stock	Div.	Yld %	P/E	Sls 100s	High	Low	Close	Chng
53¾	49⅞	York Int	0.38	0.7	24	1626	52¾	52⅜	52½	+⅛
4	3	Zapata	0.14	3.7	10	69	3¾	3⅝	3¾	+⅛
25¾	5⅞	ZenithEl			5	1390	12¾	12½	12½	-¼
28⅞	21⅛	Zenith Nat	1.00	3.8	35	104	26¼	26	26¼	+⅛
7¾	6½	Zenix Inc	0.72	10.1		102	u7⅛	7⅛	7⅛	-⅛
22⅞	15⅛	Zero x	0.12	0.6	17	374	20¼	20	20	+¼
28¾	16½	Zurn Ind	0.40	1.4	22	235	28	27⅞	28	+⅛
11⅞	10½	Zweig Fund	1.08	9.8		267	11	10⅞	11	
8	8¼	Zweig Tot 2	0.84	10.0		519	8½	8⅜	8⅜	

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. pf-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

x Dealings suspended.

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NASDAQ NATIONAL MARKET

4 pm close November 19

AMEX PRICES

4 pm close November 19

FINANCIAL TIMES Wednesday November 20 1996

Uptrend in US shares resumes

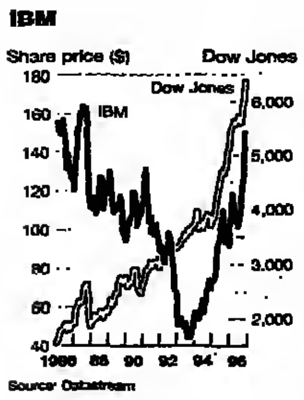
AMERICAS

After a one day pause, US shares resumed their upward course at midsession as the bond market strengthened and the technology sector rebounded from recent weakness, *writes Lisa Bransten in New York.*

At 1 pm, the Dow Jones Industrial Average was 23.65 stronger at 6,370.76, on course to close at a new record high. Before Monday's drop of 1.12, the blue chip index had risen for 10consecutive sessions.

The Standard & Poor's 500, also on track for a new record high, rose 2.60 to 739.62, and the American

IBM



Source: Datastream

Stock Exchange composite by 0.74 at 584.92. NYSE volume was 263m shares.

The Nasdaq composite, which is weighted toward the technology sector, could not recover all of the 7.23 it lost on Monday. It was just 1.84 stronger at 1,256.41, while the Pacific Stock Exchange technology index, which includes Nasdaq and NYSE-listed shares, rose 0.8 per cent.

The bond market rallied after figures showed that the housing sector was slowing more quickly than many analysts expected.

Among the strongest performers on the Dow was IBM, which continued its upward charge with a gain of $2¾ or 2 per cent at $149¾ to put it at a nine-year high. Shares in Big Blue have risen about 16 per cent this month, putting them within reach of the all-time high close of $175 made in the third quarter of 1987.

Other large capitalisation technology shares also gained yesterday, while some internet-related companies lost ground.

The three largest companies on the Nasdaq were all stronger. Intel added $2⅞ at $117⅞. Microsoft was $1⅞ stronger at $152 and Cisco Systems climbed $⅝ at $64.

Meanwhile, Netscape Communications, the maker of internet software slipped $1¼ to $56⅝. Cybercash lost $1 at $28¼ and Yahoo! slid $¼ at $17⅞.

Retailers continued to post third quarter results yesterday. Both Dayton Hudson, up $⅝ at $37¾, and the Limited, $⅝ stronger at $18⅝, managed to edge higher after reporting operating earnings that were ahead of estimates.

TORONTO drove forward in the wake of an early surge on Wall Street to end the morning session in new high ground. At noon, the TSE-300 composite index was up 21.6 at 5,894.3.

Volume was described as brisk with consumer products, up almost 1 per cent, staging the best performance among the 14 sub-sectors within the index.

Among blue-chips, the best gains were shown by Moore Corp, up 80 cents to C$29.05, and Seagram which advanced a further 65 cents to C$52.70 on continued talk of solid pre-Christmas sales. Canadian Pacific added 45 cents to C$36.25.

Bombardier A shares hardened 10 cents to C$24 following news of a European maintenance deal with Germany's flagship airline, Lufthansa. Eicon Technology added 5 cents to C$5.10 after the company forecast a return to a profit this year.

Sao Paulo edges down

Concerns over a pending congressional committee vote on the privatisation of state-owned companies left SAO PAULO weaker at midsession, with the Bovespa index 248 down at 63,514.

Analysts said that investors were awaiting a senate vote, after the market closed, that could allow congress to remove state owned companies from the privatisation programme. This would jeopardise the sell-off of the state-owned mining giant, Companhia Vale do Rio Doce. In spite of the concerns, CVRD gained 1.4 per cent to R$21.30.

Against the trend in a largely weak region, CARACAS edged ahead as buyers remained active in a highly liquid market with low interest rates.

The IBC index was 42.65 higher by midsession at 8,050.46, as the market awaited the afternoon deadline for buy orders from institutional Venezuelan investors for shares in the telephone company, CANTV.

S Africa clips recent gains

Heavy profit-taking in the futures market and another soft day for the bullion price clipped recent gains in Johannesburg and the overall index shed 49.3 at 6,866.0

Industrial shares came off 48.9 to 8,086.9. Golds continued to follow the bullion price lower, dipping a further 27.1 to 1,687.2.

The firmer rand offered some support early in the morning but aggressive selling in the futures market soon put sentiment into reverse, said brokers. There was also caution ahead of today's inflation data.

Anglo American lost R2.50 to R270.50 and De Beers shed R1.75 to R144.25. Strong results from Tiger Oats could not swim against the tide. The shares ended off R25 at R6,250.

Eurotunnel falls but Paris nudges higher

EUROPE

Eurotunnel was actively traded in PARIS, brokers saying that the Shuttle fire had brought tunnel safety into full focus and revived worries about a switch by customers back to sea travel. In a hectic session, the shares closed off 10 centimes at FFr7.70 in volume of 3.5m as the CAC-40 index rose 11.24 to 2,240.05.

GAN continued to wilt, sliding FFr3.50 to FFr114 as investors awaited clarification of management changes and news of where the planned CIC banking disposal goes from here.

BNP and Société Générale, both bidders for 67 per cent of GAN's stake in CIC, fell FFr2.40 to FFr207.50, and FFr8 to FFr666 respectively.

The arbitrageurs had another busy session in the run up to the insurance merger between Axa and UAP. Both rallied, with Axa up FFr4 at FFr301 and UAP recovering FFr1.60 to FFr135.40.

News of a strategically important Russian contract gave Bouygues a lift. Shares in the construction group jumped FFr13 to FFr628.

FRANKFURT blamed a lack of follow-through from US investors as Deutsche Telekom continued to ease from Monday's intraday peak of DM34.20, losing another 58 pfg or 1.8 per cent at DM31.90. However, a good start on Wall Street helped the broad market pick up, and the end of another extended Ibis session saw the Dax index 12.64 higher at 2,781.54.

There were other Telekom ripples. Deutsche Bank, down 5.5 per cent on a very small trade late on Monday evening, recovered DM3.10 or 4.5 per cent to DM71.60. Elsewhere in the sector, Bayernverein rose DM1.92 to DM65.50 and Dresdner 95 pfg to DM45.60, taking their gains to 13.3 and 12.6 per cent respectively this month.

Mr Robert Law at Lehman Brothers said that the gains had coincided with results, DVFA meetings and speculation that consolidation in the sector would come sooner, rather than later. He added, however, that the share price history of the sector in recent years was one of decline, with occasional rallies. He saw no organic changes and while consolidation looked more likely in the long run, its timing was a matter of conjecture.

MILAN was lifted by bonds and union support for the government's Euro-tax, while Fiat picked up from lows after the government said that it was considering aid for the car industry.

The Comit index edged 0.14 higher to 648.92 while the real-time Mibtel index picked up from a low of 10,274 to close 110 higher on the day at 10,415.

Fiat sank to an early L4,230 as investors absorbed news, which came after the market closed on Monday, of a 36 per cent profit slide in the first nine months. Subsequently, however, the shares leapt to close L207 higher on the day at L4,585 after the foreign trade minister, Mr Augusto Fantozzi, said that the government was studying intervention to help the ailing motor industry.

AMSTERDAM dealers mostly concentrated on a strong bounce for Philips and its PolyGram music offshoot, when they were not watching Heineken slide in the opposite direction.

Robust half-year numbers from EMI, the UK music leader, led to a sympathetic surge at PolyGram while this, plus news that its planned Fl 1.7bn new chip plant was to be sited outside the high-cost Netherlands, propelled Philips higher.

Philips gained Fl 1.20 to Fl 63.60 and PolyGram 90 cents to Fl 81.90.

Heineken retreated Fl 4.40 to Fl 312.70. The brewer was hit by worries about tough trading, plus speculation that it could face stiffer competition in its important Latin American markets, following recent acquisition forays by Anheuser-Busch of the US.

When trading came to an end, the AEX index was practically all-square, off 0.58 at 609.46.

ZURICH's SMI index rose 4.3 to 3,892.6. Roche certificates pushed SFr150 ahead to SFr10,065 on brokers' recommendations, and further switching out of Novartis amid continuing uncertainty over when the US authorities would make a decision over the merger of Sandoz and Ciba.

TEL AVIV pushed ahead in an active session for bank shares. The Mishtanim index rose 2.15 to 195.23.

Banks led the way up in anticipation of strong earnings from the sector. First International Bank, which announced third quarter profits growth as the session closed, put on 0.25 per cent to Shk34,763.

ISTANBUL sank 4 per cent as heavy selling was triggered by a report that the Japan Credit Rating Agency had downgraded the country's debt. The IMKB-100 index finished 3,311.41 down at 79,861.38, having recovered from a low of 79,131. Volume, which jumped to L28,310bn, was close to the record L28,830bn posted on October 21.

FTSE Actuaries Share Indices

Nov 19							THE EUROPEAN SERIES	
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	1824.77	1824.18	1824.01	1823.83	1823.50	1824.05	1825.30	1824.80
FTSE Eurotrack 200	1866.90	1867.69	1867.08	1866.56	1867.61	1868.45	1869.27	1869.69

	Nov 18	Nov 15	Nov 14	Nov 13	Nov 12
FTSE Eurotrack 100	1827.06	1826.06	1811.76	1799.35	1793.58
FTSE Eurotrack 200	1869.03	1865.31	1852.99	1843.48	1836.62

Base value 1000 (26/10/90) High/day: 100 - 1827.16; 200 - 1870.83 Low/day: 100 - 1822.75 200 - 1865.78 † Partial.

EUROPEAN EQUITIES TURNOVER
Monthly total in local currencies (bn)

Bourse	July 1996	Aug 1996	Sep 1996	Oct 1996	US $m
Belgium	110.84	84.748	110.65	121.08	3.88
Denmark	30.62	32.90	37.51	43.99	7.56
Finland	11.77	13.99	14.40	20.82	4.59
France	295.40	131.51	225.15	244.54	47.84
Germany	187.73	124.14	168.24	184.42	121.81
Italy	52,068	41,528	50,252	51,300	33.62
Netherlands	46.70	42.10	47.10	81.60	38.30
Norway	24.40	29.60	47.00	40.58	6.36
Spain	1,566.70	892.84	1,345.32	1,872.79	14.68
Sweden	119.39	118.00	148.20	194.20	29.57
Switzerland	51.07	27.78	30.19	35.03	27.81
UK	60.15	54.10	58.10*		

*Volumes represent purchases and sales. *Estimated; figures for October not available, due to difficulties arising from the move to the Crest settlement system. Italian data adjusted to include off-market trading. Some figures may be revised. Source: NatWest Securities*

Turnover in continental European equity markets confirmed a return to more satisfactory levels last month, adding 13.7 per cent to the 36.5 per cent rise in September, after two very weak months. Turnover reported to Seaq International, the London screen-based trading system, was also back to normal, up 25 per cent on the month. Mr James Cornish at NatWest Securities, which compiles the data, comments that the recovery in activity by international investors looks like a delayed response to market strength: the FT/S&P Europe, ex-UK, index rose 0.5 per cent in October and was up 7.4 per cent since the end of July. Finland registered the largest increase in October, up 44.6 per cent, accompanying a 1.3 per cent rise in the Hex index as the markka joined the ERM. By contrast, Italian domestic turnover rose by just 2.1 per cent, as market indices dropped 5 per cent on disappointments from Olivetti and some of the banks. On Seaq International, however, turnover rose by 96.3 per cent to record levels suggesting, says Mr Cornish, large-scale international selling.

Written and edited by William Cochrane, Michael Morgan and Jeffrey Brown

Moderate rebound as Tokyo waits for tankan

ASIA PACIFIC

Tokyo staged a moderate rebound after another thin session dominated by selective buying, *writes Gwen Robinson in Tokyo.*

The Nikkei 225 average added 159.81 to close at the day's high of 20,956.18, after a low of 20,732.78. Volume recovered to an estimated 219m shares after a year's low of 170m on Monday.

Investors were waiting for next week's release of the Bank of Japan's "tankan" quarterly economic survey, seen as a vital monetary policy determinant. Concern that the tankan would paint a weaker than expected economic picture made for caution among institutions.

The Topix index of all first-section stocks rose 5.75 to 1,562.08 and the capital-weighted Nikkei 300 by 1.21 to 293.46. Advances led declines by 572 to 445, with 197 unchanged.

In London, the ISE/Nikkei 50 index rose 0.31 to 1,437.79.

The listing of Deutsche Telekom, following its European and American debuts on the previous day, made little impact on overall market sentiment and the stock fell back from its initial price of Y2,500 to end the day at Y2,440 in volume of 7.1m shares.

Japanese telecom-related issues were mixed. DDI rose Y11,000 to Y827,000 but KDD, Japan's leading international telecommunications carrier, fell Y60 to Y8,620.

Selective buying by foreign investors continued to buoy car makers. Toyota Motor advanced Y30 to Y2,900 and Honda Motor added Y60 to Y2,930.

Electricals and high-technology issues also continued to gain ground. Fujitsu climbed Y30 to Y1,040,NEC by Y10 to Y1,330. Sony rose Y10 to Y7,000 and Toshiba Y4 to Y723. Kyocera, however, retreated Y160 to Y7,330 with Monday's strong interim results overshadowed by concern about looming competition in the mobile telephone market.

Banks were mostly up, with Sumitomo Bank by Y20 to Y2,000 and Dai-Ichi Kangyo by Y20 to Y1,870.

In Osaka, the OSE average fell 32.33 to 21,376.71 and volume declined further to 8.65m shares.

BANGKOK rallied to reverse some of Monday's steep losses. At the close, the SET index was up 21.85 at 964.19, a gain of 2.3 per cent.

Given the fluidity of the political situation, sentiment remained very fragile, said one broker. On Monday, Thai equities fell steeply as investors reacted cautiously to the result of the weekend general election.

TAIPEI hit another all-time high with the weighted index rising 28.16 to 6,687.88.

Brokers said the upturn was fuelled mostly by continued buying by government-related funds. Local press reports said that Taiwan's big labour pension funds had pumped some T$2bn into the market on Monday.

Acer, the computer group, was the most active stock, rising by its 7 per cent limit to T$42.80.

HONG KONG remained in record territory, even when it turned back from the day's best level on worries that a blue chip company might be about to launch a share placement. The Hang Seng index closed 14.13 higher at 13,056.93, off an intra-day record high of 13,183.01, in healthy turnover of HK$10.5bn.

Among potential candidates for a share placement, Sun Hung Kai Properties lost HK$1 at HK$92.25 and HSBC Holdings fell HK$2 at HK$158.00.

Cheung Kong rose HK$1.50 to HK$68.50 and Henderson Land advanced HK$1 to HK$73.25, both boosted by talk of covered warrant issues.

SHENZHEN's hard currency B index added to Monday's 5.9 per cent surge with a leap of 6.5 per cent on continuing rumours that securities regulators were considering market boosting measures after the market's prolonged slump. The index rose 6.30 to 102.86. The upbeat mood spilled over to SHANGHAI where the B index rallied for the sixth straight session, adding 0.294 to 47.104.

SYDNEY again moved lower on further profit-taking. The All Ordinaries index closed down 17.8 at 2,366.0.

Coca-Cola Amatil continued to slide. Hit on Monday by a broker sell note, the shares fell a further 40 cents to A$15.10.

WELLINGTON finished down in spite of weaker than expected wage growth. The 40 capital index eased 10.02 to 2,342.34, NZ Telecom losing 5 cents at NZ$7.50.

SINGAPORE was weak, reflecting uncertainty over the outlook for the economy and the Straits Times Industrial index ended off 7.85 at 2,170.18.

An off-market sale of 13.3m Keppel Engineering shares to its sister company, Far East Levingston Shipbuilding, was the day's dominant trade in volume terms, Keppel Engineering ended up 10 cents at S$1.54.

SEOUL again fell prey to worries about gloomy economic prospects and the composite index ended 3.77 lower at 747.05.

Six of seven initial public offerings which made their debuts ended sharply lower. Korea Technology Banking, however, closed at its daily upper limit of Won21,200, up Won1,200.

Dong Ah Construction closed Won100 higher at Won22,300, after a high of Won23,100 on news of a $5.1bn Libyan contract.

MANILA ended mixed, pushed into positive territory by late buying of *selected leading stocks.* The main index closed 3.47 better at 3,109.02 in good turnover of 3.4bn pesos. PLDT added 5 pesos to 1,595 pesos.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co and Standard & Poor's. The Indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the Indices.

NATIONAL AND REGIONAL MARKETS	MONDAY NOVEMBER 18 1996								FRIDAY NOVEMBER 15 1996					DOLLAR INDEX		
Figures in parentheses show number of lines of stock	US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div Yield	US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	52 week High	52 week Low	Year ago (approx)
Australia (78)	215.68	0.0	191.32	151.90	168.39	181.24	-0.2	4.21	215.65	191.88	151.45	169.10	181.81	218.14	182.48	182.48
Austria (24)	184.54	0.1	163.69	129.37	144.07	144.01	-0.3	1.99	184.27	163.94	129.41	144.49	144.43	195.04	188.36	188.12
Belgium (27)	229.11	0.7	203.23	161.36	178.87	174.87	0.2	3.81	227.58	202.48	159.83	178.48	174.43	229.11	197.59	200.13
Brazil (28)	179.94	0.4	159.62	126.73	140.48	341.15	0.5	1.79	179.16	159.40	125.82	140.49	339.57	189.70	129.15	132.44
Canada (116)	191.32	-0.3	169.71	134.75	149.37	185.78	0.0	1.94	181.73	170.58	134.65	150.34	185.84	191.73	144.35	145.24
Denmark (30)	339.10	0.0	300.79	238.83	264.74	266.09	-0.3	1.73	339.02	301.62	238.08	265.84	266.92	339.10	276.89	281.98
Finland (24)	239.34	0.2	212.30	168.57	186.86	227.24	-0.1	2.21	238.87	212.52	167.75	187.31	227.45	239.34	171.73	212.87
France (93)	210.81	-0.1	186.99	148.47	164.58	167.85	-0.5	2.91	210.99	187.71	148.17	165.44	168.63	211.40	167.70	182.90
Germany (58)	187.16	-0.8	166.01	131.81	146.12	146.12	-1.2	1.72	188.59	167.78	132.44	147.88	147.88	188.59	159.60	181.01
Hong Kong (59)	490.26	1.4	434.87	345.29	382.75	486.68	1.4	3.18	483.30	429.99	339.41	378.88	478.77	490.26	354.87	354.67
Indonesia (27)	226.45	0.8	200.87	159.40	178.79	324.66	0.3	1.57	224.64	199.86	157.76	176.15	321.98	-	-	-
Ireland (16)	318.17	0.0	283.11	224.79	249.18	268.71	-0.3	3.40	318.07	283.87	224.07	250.19	269.81	318.32	249.80	257.01
Italy (58)	81.76	-0.1	72.52	57.58	63.83	92.32	-0.5	2.25	81.87	72.84	57.49	64.20	92.78	84.53	67.22	70.43
Japan (480)	141.28	-0.8	125.32	99.50	110.30	99.50	-0.8	0.77	142.47	126.75	100.05	111.72	100.05	184.69	137.62	142.36
Malaysia (107)	583.73	0.1	517.79	411.12	455.73	567.50	0.2	1.10	583.01	518.70	409.43	457.18	568.59	587.74	427.35	427.35
Mexico (27)	1209.82	-1.0	1073.14	852.07	944.52	10459.65	-0.9	1.25	1221.75	1086.99	858.01	958.03	10558.81	1325.65	869.82	869.82
Netherland (19)	325.84	1.1	289.03	229.49	254.39	250.43	0.7	2.85	322.35	286.78	226.38	252.77	248.80	325.84	260.09	260.08
New Zealand (15)	92.42	0.3	81.98	65.09	72.15	69.22	-0.1	4.02	92.11	81.95	64.68	72.22	69.25	94.35	75.94	78.52
Norway (35)	278.44	0.2	246.98	196.10	217.38	239.33	0.2	2.11	277.98	247.32	195.22	217.98	238.55	278.44	222.24	225.58
Philippines (22)	197.43	0.9	175.12	139.05	154.13	258.41	0.9	0.62	195.81	174.03	137.37	153.38	256.03	-	-	-
Singapore (43)	408.47	-1.0	362.32	287.68	318.90	263.43	-1.0	1.02	412.59	367.08	289.75	323.53	265.98	465.21	365.65	365.65
South Africa (44)	334.44	1.7	296.66	235.54	261.10	340.53	1.4	2.28	328.71	292.46	230.85	257.78	335.78	437.76	314.20	374.69
Spain (37)	196.09	0.3	173.93	138.10	153.05	187.79	-0.1	3.18	195.51	173.95	137.30	153.31	188.06	196.08	152.70	152.70
Sweden (48)	409.08	0.0	362.86	288.11	319.37	389.93	-0.4	2.13	409.12	363.99	287.31	320.81	401.40	409.12	294.19	311.68
Switzerland (37)	249.99	0.8	221.74	176.06	195.16	196.65	-0.2	1.51	248.59	221.17	174.58	194.93	187.04	254.34	218.29	226.64
Thailand (45)	119.54	-8.0	106.03	84.19	93.32	117.97	-8.0	2.91	129.94	115.60	91.25	101.89	128.19	193.95	112.17	148.84
United Kingdom (213)	266.45	0.3	236.35	187.66	208.02	236.35	0.0	4.02	265.54	236.25	186.48	208.22	236.25	268.45	222.43	225.84
USA (624)	299.64	-0.1	265.75	211.03	233.93	299.64	-0.1	2.00	299.93	266.84	210.63	235.19	299.93	299.93	243.34	245.97
Americas (795)	274.25	-0.1	243.27	193.15	214.11	230.52	-0.1	1.99	274.54	244.26	192.80	215.28	230.74	274.54	222.53	223.85
Europe (719)	231.94	0.2	205.74	163.36	181.08	196.06	-0.2	2.36	231.52	205.89	162.59	181.55	196.48	231.94	194.31	196.75
Nordic (137)	350.64	0.0	311.03	246.96	273.75	299.99	-0.3	2.08	350.50	311.84	246.15	274.84	300.78	350.64	261.13	278.74
Pacific Basin (870)	158.33	-0.6	140.44	111.51	123.61	113.08	-0.4	1.24	159.24	141.67	111.83	124.86	113.49	177.01	151.89	151.89
Euro-Pacific (1595)	188.89	-0.2	167.55	133.03	147.47	144.38	-0.3	2.12	189.24	168.37	132.90	148.39	144.77	190.57	170.50	170.50
North America (740)	293.20	-0.1	260.08	206.50	228.91	292.18	-0.1	1.99	293.50	261.13	206.12	230.15	292.45	293.50	237.55	239.74
Europe Ex. UK (506)	208.25	0.1	184.73	146.67	162.59	171.39	-0.4	2.34	208.08	185.12	146.13	163.16	172.01	208.25	174.81	178.73
Pacific Ex. Japan (396)	307.52	0.3	272.78	216.58	240.08	265.42	0.3	2.60	306.47	272.66	215.23	240.32	264.66	307.52	243.87	243.87
World Ex. US (1810)	191.00	-0.2	169.42	134.52	149.11	149.76	-0.2	2.11	191.30	170.20	134.35	150.01	150.13	191.55	171.50	171.50
World Ex. UK (2221)	221.13	-0.2	196.15	155.74	172.64	198.36	-0.2	1.85	221.53	197.10	155.58	173.71	188.75	221.53	191.33	191.33
World Ex. Japan (1954)	269.28	0.0	238.86	189.65	210.23	252.23	-0.1	2.37	269.17	239.48	189.03	211.07	252.45	269.28	222.93	223.26
The World Index (2434)	225.03	-0.1	199.61	158.49	175.68	192.82	-0.2	2.06	225.32	200.47	158.24	176.69	193.17	225.32	194.35	194.35

Latest prices were unavailable for this edition